

A REVIEW OF THE HISTORICAL
DEVELOPMENT AND CONTEMPORARY MANAGEMENT
STRUCTURE OF MILITARY CLUB SYSTEMS

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NAVAL POSTGRADUATE SCHOOL

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THESIS

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AND CONTEMPORARY MANAGEMENT STRUCTURE
OF MILITARY CLUB SYSTEMS

by

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A Review of the Historical Development
and Contemporary Management Structure
of Military Club Systems

by

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Submitted in partial fulfillment of the
requirements for the degree of

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I. INTRODUCTION

A. GENERAL BACKGROUND

Military clubs, or "open messes" as they have sometimes been called, constitute a long standing tradition in the American armed services. Like many other military traditions such as saluting, uniforms and frequent household moves, clubs have become so ingrained in the minds of service members and their dependents that they have often been taken for granted. Newly arrived personnel, as part of the indoctrination process, are customarily briefed by their counterparts as to the locations of the local military retail merchandise outlets (exchanges), military supermarkets (commissaries), military recreational facilities, and military clubs. These activities, which are lumped together under the generic term--morale, welfare and recreation (MWR) activities--can be found on almost every post/base regardless of its geographical location.

For those persons assigned to overseas bases or to bases in remote U.S. areas, the exchanges, commissaries, recreational facilities and military clubs assume greater importance. MWR facilities at remote and overseas military installations may represent the only readily accessible and affordable outlets for off-duty recreation, entertainment and material needs of assigned military personnel and their dependents.

Top level military officials have long since recognized that MWR activities can contribute much to a successful base operation. In the case of single junior enlisted personnel, the morale effects of adequate MWR activities, or a lack of the same, often are very pronounced. For these service members, idle time and restless energy often, like heat and flammable fuel, form a dangerous, easily ignitable mixture under uncontrolled circumstances [Ref. 1]. Military clubs and other MWR activities help provide local commanders with a vital form of safe release. For the more senior married service members, MWR activities can serve to provide social and entertainment outlets which compensate to a degree for disruptions in family life caused by frequent moves, family separation, and long working hours; all of which are endemic to most military occupations.

Local base commanders can use MWR activities to build unit pride (Esprit de Corps). Unit sponsored picnics, bowling teams, formal dinners, wives clubs, and cocktail hours are examples of activities which can relieve tensions and foster group morale. The military clubs have been particularly important in this regard, though their contribution to the morale of service personnel is probably impossible to quantify.

B. PURPOSE OF THE STUDY

The purpose of this study is to examine the present organizational structure of the military club system. This is

important because, as noted in subsequent chapters of this study, various Congressional committees and subcommittees, Department of Defense (DOD) internal audit agencies, and the General Accounting Office (GAO) have raised questions about the organizational structure of the military clubs. These critics have contended that decentralized military club organizations reduce the ability of military clubs to provide recreational and entertainment services to military personnel and their dependents. Though acknowledging shortcomings in club operations, DOD club officials have maintained that shifting operational control over club activities from the local to a headquarters level would only serve to create an unnecessary management layer. Thus, there is a fundamental difference in management philosophy between the organization charged with running the military clubs (e.g., DOD) and organizations empowered with oversight over military club operations (e.g., Congress, GAO, DOD internal audit agencies).

In evaluating the relative merits of a centralized/decentralized club management system, the objectives of military clubs should be kept in mind. These objectives have been promulgated, albeit in broad terms, in numerous DOD instructions and directives.

Military clubs, one of eight DOD designated MWR categories (see Appendix for a description of the DOD MWR categories) have been organized to help foster some general DOD MWR objectives. DOD Directive 1330.2 dated 17 March 1978, for example, states:

... It is the policy of the Department of Defense to fund a well-rounded morale, welfare and recreational program to:

a. Maintain among its personnel a high level of esprit de corps, job proficiency, military effectiveness, educational attainment and physical well-being.

b. Promote and maintain the mental and physical well-being of DOD personnel.

c. Encourage DOD personnel to use their time constructively and creatively by participating in programs that help to develop and maintain motivation, talent, and skills which contribute to the ability to discharge their duties as service members and as responsible citizens.

d. Aid in recruitment and retention by making service with the Department of Defense an attractive career.

e. Assist service personnel in adjusting from civilian life to a military environment upon entry into the service.

f. Assist in providing a community support environment to dependents of service members, particularly in the absence of military sponsors while at sea, on unaccompanied tours, on maneuvers, or involved in armed conflict.

In specific terms related to the military club organizational structure, this study parallels the approaches of Congressional committees and GAO and addressed the following questions [Ref. 2]:

1. Does the present DOD club structure make efficient use of available resources (manpower, material, and money)?
2. Is the present DOD club structure applicable to the current and anticipated military environments?
3. Can the present DOD club structure ensure that policies, rules, and regulations promulgated at high echelons are carried out at the operational level?
4. Is the present DOD club structure adaptable to changing external economic, regulatory, political, and social factors?

5. Does the present DOD club structure provide the vast majority of active duty service personnel with an "acceptable" level of service?

The study was not intended to present any new radical proposals for changes in club management organization or policy. Instead, emphasis was placed on examining the full range of organizational options that already have been proposed by various parties involved in the military club arena.

C. METHOD EMPLOYED

Interviews with club officials and a review of available printed material were used to prepare this study. The interviews were conducted with club managers, Congressional staff members, service headquarters club management officials, and representatives of professional club management organizations. The purpose of these interviews was to surface and compare varying views on military club management from a variety of individuals who have been actively involved in operating, advising, or overseeing military clubs. Some of the comments made by these club officials were "off the record"; consequently some sources of information are not cited directly in the text of this study.

Review of applicable written material provided insights into the history of the military clubs, past and present club problems, club financial data, additional viewpoints of cognizant club officials, information regarding legislative and legal actions pertinent to club operations, results of various

club management studies, and background information on the evolution of the present club organizational structure. Synthesizing the diverse information obtained during the research phase was necessary in order to place the club structure in its proper perspective relative to the larger organizational entities (DOD, the executive and legislative branches of the Federal Government, the American political system, America as a whole) under which it operates. Finally, having looked at the club system on a DOD-wide basis, a sub-set of the DOD club system (the Navy club system) was examined in more detail.

D. THESIS ORGANIZATION

Chapter II deals with the historical origins and evolution of DOD clubs. While not directly related to present day military club management, understanding the traditions, history, and past club operating policies and procedures shed considerable light on the why's and wherefore's of the contemporary DOD club organizational structure.

Chapter III examines changes in the military club system during the 1970s. The effect of increasing Congressional scrutiny, DOD audit agencies recommendations, in-house DOD management initiatives, and external factors are discussed in detail.

Chapter IV shifts the focus of the report from the DOD to the Department of the Navy (DON) level. The DON club structure is outlined and contrasted with club systems of the other armed service branches as well as with other DOD

MWR activities (i.e., exchange, recreational activities, and commissaries).

Chapter V restates some of the problems and challenges that face the Navy club system as it moves into the 1980s. Management options are presented which could, in the opinion of the author, be utilized to deal with potential and existing impediments to effective military club operations.

Finally, in Chapter VI, some proposed changes in the Navy club organizational structure are presented. The proposed structure is suggested as one way to meet DOD and DON club objectives, satisfy mandated regulations and guidelines imposed by higher authority, minimize organization resistance to change, improve efficiency of operations, and improve the overall level of service to military personnel of all ranks. While the conclusions reached are primarily related to the Navy club system, it is felt that they have a high degree of applicability to club systems of all four armed services branches (Army, Air Force, Marine Corps, Navy).

II. ORIGINS AND EVOLUTION OF TODAY'S MILITARY CLUB SYSTEM

"... 'Do you know who made you?'.. 'Nobody, as I knows on,' said the child, with a short laugh... 'I spect I grow'd'..."

(Topsy--from Uncle Tom's Cabin
by Harriet Beecher Stowe)

A military club is something of a hybrid between a commercial food and entertainment outlet and a non-profit business organization. To the extent that military clubs must generate enough revenue to cover their operating costs, profit is important. However, unlike their commercial counterparts, profit alone does not represent the "bottom line." Military clubs have to ensure that their prices, hours of operation and types of services offered support the needs of the military members that they serve--even if profits are reduced in the process. A basic understanding of the origins and evolution of military clubs highlights some of the unique features of military clubs and consequently is covered in this chapter prior to any further discussion of the military club system.

A. ORIGINS OF THE MILITARY CLUB SYSTEM

It would be very difficult to pinpoint a particular time and place when and where the first military club began operations. Military clubs, in the manner of "Topsy," appear to have arrived on the scene without the planning and ceremony that accompany birth. Understanding the haphazard and somewhat

bizarre history of military clubs and other related MWR activities is fundamental to understanding some of their present day organizational, financial, and operational features.

To begin with, as Noone points out, "Neither armies nor navies have ever supplied all the needs of their men." Articles of clothing, food, liquor, etc., which the military logistic systems could or would not supply, but for which a demand existed, were often provided by itinerant merchants who followed the armies from camp to camp. Known by many different names, in America these independent businessmen were called "sutlers." Descriptions of sutlers are mentioned in writings dating as far back as the memoirs of Caesar [3].

The American Articles of War of 1776 authorized sutlers for a fee, to sell convenience and necessity items not issued by the Government. Sutler fees were used by local commanders to fund post schools, bands, and emergency relief funds. The sutler system was replete with many abuses--notably high prices, shoddy merchandise, and usurious interest rates. Numerous cases of fraud and corruption of military officials also helped give the sutler system a bad name. In 1866 the Army was authorized by Congress to sell provisions to the troops at cost--giving rise to today's Army Commissary system. The sutlers, or post traders as they were later called, continued, however, to sell retail merchandise and alcoholic beverages to the soldiers. Their decline, and eventual disappearance, was due to the success of post canteens [4].

"Bumboaters" were the naval counterparts of the sutlers. For centuries these private merchants met ships in foreign ports and attempted to sell sailors any and all items that seamen could not otherwise obtain through military channels. As in the case of the sutlers, the quality and often the questionable legality of their merchandise, exorbitant prices, and their penchant for bribery, led to their demise [5].

Bumboaters and sutlers, their deficiencies notwithstanding, filled important voids in the lives of soldiers and sailors. Doing away with these private retailers forced the military services to provide alternatives. Commissaries were instituted to provide fair priced and quality food outlets. Requirements for providing retail merchandise, entertainment, and recreational services, that is, MWR, began to be met by the formation of service sponsored groups at the local level. The following example of an early attempt to form a military sponsored MWR activity was noted in a 1977 report issued by the General Accounting Office (GAO) [Ref. 6].

In 1840 an Army commander set aside a room at his post where reading and writing material, games, light food, and beverages were available to the soldiers. His objective was to encourage his troops to spend their off-duty time in a wholesome environment rather than carouse in the nearby town and all too frequently end up in the guardhouse as disciplinary cases.

The canteen was a success and was copied throughout the country. Post canteens resembled a combination general store and social club with moderate prices. Any profits were used to improve canteens and could also be distributed to detachments whose men patronized them. One of the earliest canteens was challenged by local businesses. But the local commander permitted it to continue,

based on the justification that guardhouse confinements decreased by 62 percent after the canteen opened. Such appeals to temperance and moderation became a strong argument for having canteens.

The history of the canteens demonstrates at least three points:

1. Canteens were started at the local level to fill a MWR need noted by the base commanders--not by higher echelon Army Department officials.
2. Canteens were successful ventures--both from financial and social vantage points. Their success prompted the emergence of bigger and better canteens at other posts.
3. Local businessmen challenged the propriety of the military vice civilian businessmen sponsoring such activities.

These three points and their ramifications are recurring themes in the evolution of today's DOD and Navy club systems. They will be examined in greater depth in subsequent sections of this report.

In all probability, there were attempts, similar to those of the Army, made by Naval commanders during the nineteenth century to establish "canteens" aboard ships and at shore bases. Historical data available to substantiate these efforts is sketchy. Testimony given during 1949 Congressional hearings on post exchanges, however, does make mention of the establishment and successful operation of post exchanges at the Olongapo and Cavite Marine barracks in the Philippine Islands around the turn of the century. Their success prompted the Commandant of the Marine Corps to recommend that every Marine Corps base be authorized a post exchange. By the time that the

Assistant Secretary of the Navy got around to formally authorizing the establishment of Marine exchanges on 20 June 1912, all but two post traders' stores had been eliminated in favor of command sponsored exchanges [7]. Additional testimony given before the 1949 Congressional panel discussed early versions of "ships' stores" afloat and "ships' service stores" ashore, the latter activity being the antecedent of the present day Navy Exchange system [Ref. 8].

1. Ship's Stores Afloat

... There was developed onboard naval vessels, in the years preceding the Spanish-American War, the canteen financed by voluntary contributions from the officers and crew, later repaid from profits. These canteens endeavored to provide some of the comforts of life to naval personnel. They were operated in a most informal manner with little concern for accountability or responsibility. The cruise of the White Fleet around the world in 1908 proved the inadequacy of the canteen system and Congress subsequently authorized the establishment and operation with appropriated funds of ship's stores [9].

2. Ship's Service Stores Ashore

... Ship's service stores ashore were small concessions operated for personal profit by enlisted. However, as it became necessary to expand the scope of the operation, the concession became quite profitable and the question of control became a problem. Ship's Service Stores were authorized as official sale activities by the Navy Regulations of 1923, which provide for operation of the stores with non-appropriated funds under the direction of command officers, and required that profits be used for the welfare and recreation of naval personnel. The profits subsequently became the prime source of funds for welfare and recreational purchases [10].

Note that the ashore-based Ship's Service stores were authorized, somewhat belatedly again, as non-appropriated fund activities. The afloat Ship's Stores, on the other hand, were

authorized as appropriated fund activities. Curiously, profits resulting from the Ship's Stores afloat operations are treated as non-appropriated funds. Though it is impossible to precisely determine the Congressional intent, if any, of funding afloat and shore based Ship's Stores differently, it is possible that the drafting legislators considered the afloat stores more essential than the shore-based Ship's Service stores. At any rate, a clear cut distinction in funding methods was made between the afloat and shore-based stores. As discussed in a later chapter, no such distinction between "essential" and "non-essential" military clubs has ever been made by the services.

Though there are no existing regulations which prohibit it, off-duty fraternization between commissioned officers and enlisted personnel has long been frowned upon in the military services [Ref. 11]. The services' traditional view has been that off-duty socializing between officers and enlisted personnel would:

1. Be detrimental to maintaining good order and discipline (e.g., after imbibing alcoholic beverages, an enlisted man might not show decorum to a commissioned officer or senior non-commissioned officer--or vice versa).
2. Cause personnel of all ranks to feel inhibited by the presence of their superiors/subordinates.
3. Cause a deterioration in the military performance of the units involved.

Inasmuch as history tends to perpetuate itself, one of the end results of segregating military social clubs by rank

has been to foster and perpetuate the idea that any other arrangement would not work. Even at small remote posts, where generally accepted business principles would seem to favor consolidation of small individual clubs into a singular entity, there has been strong pressure, from officer and enlisted personnel alike, to continue the practice of maintaining rank-segregated facilities. The blunt comment of an anonymous Navy officer, responding to a recent GAO military club questionnaire, illustrates how strong feelings can run on this issue [12].

Mixing enlisted and officers at clubs not only ruins the family atmosphere I desire, but also is a detriment to proper good order and discipline. It's fine to visit the CPO (Chief Petty Officer) Club and Enlisted Club when invited for special occasions such as Chief's initiation or "we passed the big inspection" ship's party but not for continued social fraternizing. I also feel that my sailors would not desire their commanding officer to be dining out and drinking, etc., in "their" club. It would inhibit some and embolden others. Believe me. If a club is not profitable, close it. Simple as that.

Though the missions and scope of club operations have increased through the years, the concept of decentralized management has remained as a cornerstone of the Services' club management philosophy. While commissaries and exchanges have opted for central management by large military agencies [13] day-to-day management of military clubs has remained a function of the local commander. Within guidelines promulgated by DOD and Service headquarters, local commanders traditionally have been free to operate their clubs as they pleased. Top echelon Navy officials, as well as officials of the other

services, have consistently defended their decentralized club management policies [14]. The following extracts from testimony given by DOD and Service officials before a 1979 HASC panel demonstrates this management philosophy.

Major General R. Dean Tice, USA, Deputy Assistant Secretary for Military Personnel, Policy, Department of Defense:

... We do not agree (with GAO) that centralized management at the Department of Defense level will be either more effective in terms of personnel support or more efficient in terms of controlling costs. This is certainly not to say, however, that we currently enjoy the optimum in organizational structure or management techniques--either within the open mess systems or the overall morale, welfare and recreation (MWR) program. There is always room for improvement... [15].

Major General James C. Pennington, the Adjutant General, Department of the Army:

... Removal of officer, NCO and enlisted clubs from the local commander's operational control would inhibit the commander's ability to implement a comprehensive, mutually-supporting installation MWR program serving the diverse elements of the post population. The local commander is in the best position to adapt the club programs to installation peculiarities such as mission requirements, demographics, and facilities available, and to appraise other local conditions and requirements which influence club programs and services. The installation commander uses the club to help build unit cohesiveness and esprit d'corps and can encourage maximum use of the club... [16].

Major General Leroy W. Svendsen, Jr., Commander Air Force Military Personnel Command:

... Increased centralization diminishes the individual troop's view of his or her self-worth and importance to the Air Force while continued emphasis on the individual military unit and geographic family has the opposite and desired effect. These factors mandate that the Air Force remain loyal to its concept that command is responsible for the well-being of the troops and combat readiness of the force. Further, removal of the open mess from the local commander's authority would reduce his or her flexibility to meet emergency and/or contingency requirements.

We, for our part, are doing everything in our power to ensure that command has available all necessary tools and resources to carry out those responsibilities. The local commander is still in the best position to identify and take effective steps to satisfy the needs of his or her troops and the requirement of the command... [17].

Brigadier General Hugh S. Aitken, Director Manpower Plans and Policy Division, Headquarters, U.S. Marine Corps:

... I would now like to address our club operations. These operations are predicated on a policy of centralized policy development at the Headquarters level with decentralized control of day-to-day operations vested in the installation commander. We have traditionally maintained that the local commander must have the prerogative of making management decisions in relation to the installation requirements. Notwithstanding this, we recognize that our management philosophy must be continually reassessed with a view toward improvement and heightened efficiency. As we indicated in our response to the GAO report, we are doing just that... [18].

Rear Admiral Fran McKee, Assistant Deputy Chief of Naval Operations for Human Resources/Director of Human Resources Management Division:

... Enhancing the quality of life and the Navy members and their dependents is an integral and vital part of the human resources management responsibility included in the Navy's overall mission...

... This mission cannot be completely accomplished from the highest headquarters level. While technical guidance and direction for these activities is provided by the Chief of Naval Personnel, the local administration is a command responsibility. Execution of the day-to-day management of messes and package stores is accomplished by commanding officers--using whatever resources legally available to them, both in terms of personnel and financial support... [19].

The official position of the Services regarding decentralized management of club operations was debated by GAO. GAO stated that the scope of military club operations had long since expanded beyond the point where local commanders, untrained in business procedures and steeped in military traditions, could effectively manage military clubs [20].

B. LEGAL STATUS OF MILITARY CLUBS

The following definition of a Non-Appropriated Fund Instrumentality (NAFI) was taken from the Department of Defense (DOD) Personnel Manual for Non-Appropriated Fund Instrumentalities [20].

An integral DOD organizational entity through which (a) an essential Government function is performed, and (b) other DOD organizations are provided or assisted in providing morale, welfare and recreational programs for military personnel and authorized civilians. The NAFI is established and maintained individually or jointly by the heads of the DOD components.

(a) As a fiscal entity, the NAFI maintains custody of and control over its nonappropriated funds, and is also responsible for the prudent administration, safeguarding, preservation, and maintenance of those appropriated fund sources made available to carry out its function.

(b) The NAFI contributes to the morale, welfare, and recreational programs of other organizational entities when so authorized, is not incorporated under the laws of any state or the District of Columbia, and enjoys the legal status of an instrumentality of the United States.

The NAFI's status as Federal instrumentalities has periodically come under legal challenge. The distinction as to whether or not NAFIs are recognized as private organizations or Federal instrumentalities is not merely an academic question: it has several far-reaching implications. For instance, Federal activities are generally exempt from tax laws of the states and other localities. Also, state regulatory powers over Federal activities are very limited. Specifically, in the case of military clubs, liquor taxes, other beverage taxes, licensing fees, and state wage laws

could be imposed if military clubs are not legally recognized as Federal instrumentalities.

Attempts have been made by various state and local agencies to impose taxes on NAFIs. A review of a few relevant legal cases is important in order to demonstrate the financial advantages that NAFIs gain from their Federal status and to emphasize the fact that there are people and organizations in the civilian sector who would like to reduce the scope of NAFI operations.

In early court cases involving the legal status of NAFIs, presiding judges found no legal precedence on which they could base their decisions as to whether NAFIs were Federal instrumentalities or not. Consequently, they tended to look to Armed Service regulations for guidance. Since the Constitution delegated the Executive branch, and its agency heads, authority to make rules and regulations governing day-to-day operations of their agencies, presiding judges in NAFI cases reasoned that Service regulations have the effect of law [22].

Interestingly, Service regulations governing the operations of clubs and other NAFIs were issued well after these organizations began operations. Nonetheless, in all cases the Services eventually got around to formally "blessing" their existence and drafted regulations to govern their operation. Usually the process occurs the other way around: regulations followed by organizational growth [Ref. 23].

The legal cases noted below demonstrate how NAFIs have benefited from their status as Federal instrumentalities:

Edelstein vs. South Post Officers' Club, Ft. Myer, Virginia (1951)--Federal court ruled that a contractor cannot sue a club unless it waives its right of sovereign immunity as a U.S. agency [24].

United States vs. Tax Commission of Mississippi, et al. (1975)--Supreme Court ruled against the State Tax Commission's attempt to require out-of-state liquor distillers and suppliers to collect and remit to the State tax in the form of a wholesale markup on liquor sold at clubs on two Navy bases [25].

Tall City Brewing Company vs. Reeves, et al. (1941)--U.S. District Court ruled against attempts by Kentucky Revenue Commissioner, Clyde Reeves, to force the Post Exchange to procure a Kentucky liquor license and to pay tax to the state on liquor sales [26].

County of Culpepper, VA vs. Richard W. Etler (1963)--U.S. District Court ruled that even though the trustees of an Air Force Officers' Club violated certain service regulations in buying a piece of real estate, the property was still not subject to state taxation [27].

C. SOURCES OF CLUB REVENUE

Over the years sources of military club revenue have varied. The early military clubs' only direct revenue sources were profits from sales and dues levied upon members [28]. Excess funds were used at the discretion of the local commanders to improve the lives of their troops [29]. The clubs received some indirect support in that the buildings they occupied, the men who operated them, and the furniture and utilities that they used were all provided at no cost to the club. Over the years this indirect support gained formal acceptance by top military officials and the Congress.

In 1891, Congress authorized appropriated funds to buy the buildings of the few remaining post traders [Ref. 30]. Shortly thereafter, the Army authorized the post canteens (by then they

were called exchanges) to use Army buildings and transportation that was not needed for operational purposes [31]. The Army Appropriation Act of 1903 went further and provided appropriated funds for:

... the construction, equipment, and maintenance of suitable buildings at military posts and stations for the conduct of the post exchange, school, library, reading, lunch, amusement rooms, and gymnasium... [32].

After nearly a hundred years of voluntary self-sufficient operations, NAFIs had gained a more secure place in the military establishment. Succeeding Army, Navy, Marine Corps, and later, Air Force, appropriation acts have all included some appropriated funding for clubs and other NAFIs [33].

There have been a few occasions when the policy of providing appropriated support for NAFIs was seriously challenged. In 1932, complaints by business groups almost persuaded Congress to abolish the military exchanges at all but the most isolated bases. The following year a House committee, investigating Government competition of all types with private business, also tried to do away with the clubs and other NAFIs. They stated that:

1. NAFIs did not save the taxpayers any money because the "free" services that NAFIs used were not charged as operating expenses;
2. Since NAFIs' retail operations were not taxed, the Government was losing tax revenues greater than the profits generated by the NAFIs;
3. Civilian enterprises could provide the military with all the MWR services they needed at bases that were not located in isolated areas.

The War Department argued, for the first time, that NAFIs were necessary to promote enlistments, in view of the low military pay scales at the time. Although the relative merits of opposing viewpoints were not resolved, when the votes were counted the Bill failed to carry [33]. World War II came and further talk of diminishing MWR activities for the military was shelved [34].

D. POST-WORLD WAR II CONGRESSIONAL OVERSIGHT

After the War, a special subcommittee of the House Armed Services Committee began hearings to determine the extent of military retail competition with the private sector [35]. The hearings were primarily concerned with the exchange system, but in a larger sense, they impacted on all revenue producing NAFIs (e.g., clubs, package stores). Retail merchants and trade associations had complained that exchanges, package liquor stores and clubs were unfairly competing against private businesses. The subcommittee basically agreed with the merchants and recommended rules which limited the types of goods that exchanges could sell. The subcommittee also stated that [36]:

1. The principal source of MWR programs should be appropriated funds and not profits generated from NAFIs.
2. Low military pay scales was not sufficient justification for having exchanges, clubs, and package stores.

The military had a staunch defender in the presence of the Honorable Carl Vinson (Dem.-Georgia), Chairman of the

House Armed Services Committee (HASC). Rep. Vinson noted, while questioning a private industry representative, that NAFI profits had recently financed construction of a military golf course in Florida. He stated further that the House Appropriations Committee, in accepting the golf course for the Government, stipulated that maintenance of the course must not come from appropriated funds. The following excerpt from the 1949 HASC hearings points out the fact that fully appropriated funding of MWR programs was considered by Vinson and many other Congressmen to be politically impractical.

Mr. Vinson: "... The only way you can get a recreation program is through some money from some profit made from these stores. And we passed the bill out of the committee this week--it comes up next week--to correct that and to put the obligation on the Government. But it was specifically written in this bill."

Mr. Sullivan: "That is the sentiment of the merchants of America. They believe that recreation facilities should be provided for by the Government and not by putting the exchanges in direct competition with the retail stores and forcing them to expand their operations for profit purposes, to make more money."

Mr. Vinson: "May I say this, Mr. Chairman: I doubt very seriously if this committee would be able to convince the Congress that we should buy golf courses and tennis courts and maintain them, because from what they think about the brass now, there is no telling what they will do when we present a bill to buy a golf course. You may be sound and may be correct about it and that may be the proper thing to do, but there are 435 Members of Congress over there and I doubt very seriously if you will find many of them that will agree to taking \$100,000 to buy a golf course for the admirals and generals to play on."

"The only way they can swing them is to get some money from some other source, because I know, and my colleagues here know, and you gentlemen know, there will be a howl all over the country that we are spending Government money to buy golf courses, tennis courts, and bowling alleys for the Service. I agree with you. You are probably absolutely correct, but we have to be realistic about this.[37].

The end results of the 1949 hearings were that:

1. The exchanges were put on notice that there were limits on the extent of competition they could offer to private businesses.
2. Congress recognized for the first time, if only in an unofficial fashion, that NAFI profits were necessary in order to fund MWR programs due to the political impracticality of supporting MWR programs solely from appropriated funds.

Congressional oversight over NAFIs and MWR programs did not stop with the 1949 hearings. Subsequent hearings between 1949 and 1972 are listed below [38].

1. HASC-1953: Reviewed questions brought forth in the 1949 hearings. Concluded that reducing the scope of exchange operations further would destroy the exchanges and serve to weaken the ability of the military to enlist and retain qualified personnel.

2. HASC-1957: Considered a DOD request to raise the price ceilings on certain authorized exchange retail items. Over the strong objection of retail associations, Congress approved price increases on most of the DOD requested items.

3. Senate Committee on Government Operations-Investigations Subcommittee, 1968-72: Chaired by Senator Abraham Ribicoff (Dem.-Connecticut), this panel:

- a. Investigated charges of fraud and corruption in military clubs and exchanges in South Vietnam.
- b. Concluded that DOD had not exercised sufficient controls over NAFIs and MWR programs.
- c. Authorized GAO access to financial and operational records of NAFIs.

d. Recommended that DOD establish a central agency to manage a consolidated MWR program.

4. HASC-1970: Comprehensive review of exchange and commissary operations. Panel criticized DOD emphasis on profits vice welfare of patrons, questioned the DOD practice of investing in long-term securities while deficiencies in existing MWR facilities existed, and chided DOD for being unable to effectively manage MWR programs. One recommendation of the panel was that stronger Congressional oversight was needed in the MWR area. To this end, it was proposed that a permanent subcommittee on MWR programs be established to look at the full range of DOD MWR programs and issues.

5. Deliberations by the Nonappropriated Fund Panel, Subcommittee on Investigations--HASC since 1972: Originally chaired by Representative Bill Nichols (Dem.-Alabama). This panel, hereafter referred to as the NAF panel, differed from previous panels in several ways:

a. It was not formed in response to a scandal or a complaint from the civilian sector. The NAF panel represented an attempt by Congress to get involved in the MWR oversight process before problems or complaints surfaced.

b. The NAF panel was established as a permanent panel that planned to hold subsequent hearings, to review DOD implementation of its recommendations.

c. The NAF panel looked at the entire scope of MWR operations (e.g., clubs, exchanges, recreation programs, movie

exchanges, commissaries, and motion picture services), not just one small segment.

d. The relatively stable composition of NAF panel members and expertise provided by professional staff personnel, gave the NAF panel "corporate memory" that was missing in previous Congressional bodies looking into the MWR area [39].

The opening statements made by Chairman Nichols during the 1972 hearings emphasized this change in operations:

... There have been times in the past when hearings have been conducted, reports submitted, recommendations made, and no follow-up has been initiated to determine what effect these studies, reports, and recommendations have had. This subcommittee will not only review these operations, but I can assure you, will continue in the future to monitor its findings, conclusions, and recommendations [Ref. 40].

The 1972 NAF panel heard 26 witnesses, took fourteen hundred pages of testimony, and published a report containing six general recommendations [Ref. 41]:

1. On each base that had authorized package beverage outlets, small package stores should be consolidated into larger package stores. All profits accruing from liquor sales should be turned over to the base welfare fund to be used by the base commander for the benefit of all personnel under his command.
2. Approval of alcoholic beverage outlets should be re-evaluated every three years by the Secretary of each service branch.
3. The military department should establish systems and procedures to identify the cost of appropriated fund support to MWR programs.
4. Each military department should establish a central agency to manage its MWR program.

5. A separate DOD audit agency should be established to audit MWR activities.
6. Each military department should review its MWR investment practices with the objective of using accumulated funds expeditiously to provide direct benefits to military personnel.

DOD and Department of the Navy (DON) responses to these recommendations are discussed in detail in the next chapter. In some cases, the recommendations were carried out as directed. In others there was a great deal of "foot dragging." Subsequent NAF panel hearings in 1977 and in 1979 reviewed DOD implementation efforts on the 1972 recommendations and suggested other areas of management improvements. It can be said that the 1970's marked a point where Congress finally took the reins of the DOD MWR program and demanded that the services fall in line. The ad hoc, loosely structured MWR management style that had become a tradition in each of the services would no longer be exempt from Congressional review. The results of this change in the Congressional oversight function has had an impact on DOD and Navy club operations.

III. THE 1970s: A DECADE OF CHANGE FOR THE MILITARY CLUB SYSTEM

This panel, as a general rule, holds with tradition and military clubs are a tradition in the armed services. We do not feel, however, that support of tradition relieves us of the obligation to examine and if appropriate, to recommend changes which would benefit the individual service member or dependent...

(Representative Dan Daniel
Chairman, 1979 NAF Panel
extract from 1979 club hearings)

The 1970s was a decade of change for military clubs. Prevailing policies and practices which heretofore had gone unchallenged, came under closer scrutiny by reviewing authorities, both internal and external to DOD. The above quotation by the House Armed Services Committee (HASC) Nonappropriated Fund Panel (NAF) panel chairman Representative Dan Daniel (who, by virtue of his seniority, succeeded Representative Nichols in 1977 as NAF panel chairman) typified the increased high level focus on improving management of military clubs.

A. INCREASED CLUB OVERSIGHT BY VARIOUS GOVERNMENTAL BODIES

DOD internal audit services (i.e., Army, Navy, and Air Force Audit Services) and GAO became very aggressive during the '70s in reviewing club operations and highlighting noted deficiencies. The Naval Audit Service (NAVAUDSVC), for example, conducted four hundred and eighty audits of Navy clubs and package stores between fiscal years (FYs) 1972 and

1977 [Ref. 42]. These audits were not limited to fiduciary and compliance checks, but also dealt with controversial areas involving efficiency and effectiveness of management operations.

The 1979 NAVAUDSVC report on Chief of Naval Personnel (NAVPERS) MWR management was a case in point. The auditors recommended that NAVPERS [43]:

1. Utilize a greater percentage of centrally managed MWR funds previously held in reserve to meet contingent liabilities, to fund worthwhile MWR construction projects; club construction was included in this category.

2. Assume Navy-wide control over recruitment, hiring, career development and evaluation of club and package store managers. At the time of this writing, this function was still being handled by local commanders.

Audit recommendations of this type forced service officials to reevaluate and sometimes change their policies and procedures relating to club management. In instances where they refused to accede to auditors' suggestions, club officials were forced to document the reasons for their dissent.

As stated in the preceding chapter, one of the outgrowths of the Ribicoff hearings in 1969-70 was authorization allowing the General Accounting Office (GAO) full access to Nonappropriated Fund Instrumentalities (NAFI) records. During the '70s GAO became an active participant in the Governmental oversight process of military clubs. Acting at the request

of various Congressional bodies, GAO issued several reports which impacted on military clubs. The GAO reports, which often contained recommendations contested by armed service officials, were widely disseminated and read by interested Congressmen and their staffs [44]. Some pertinent GAO reports are summarized below.

1. Appropriated Fund Support for Nonappropriated Fund and Related Activities in the Department of Defense, Report #FPCD-77-58, August 1977--indicated that the Government spent \$600 million each year to subsidize MWR activities.

2. Cash and Investment Management of Department of Defense Nonappropriated Funds Needs to be Improved, Report #FPCD-78-15, January 1978--recommended that MWR funds invested in non-governmental securities be deposited with the Treasury Department. Also noted problems and inconsistencies in DOD agency investment management practices.

3. Military Personnel Cuts Have Not Impaired Most Morale Welfare and Recreation Activities, Report #FPCD-79-54, July 1979--stated that the FY 1978 Congressional reduction in the number of military personnel assigned to NAFIs had no significant effect on these activities. The report also projected that proposed FY 1979 cuts in MWR appropriated fund support would have little impact on NAFIs and that at least \$5,700 could be saved annually for each military MWR position civilianized.

4. Changes Needed in Operating Military Clubs and Alcohol Package Stores--Volumes I and II, Report #FPCD-79-9 and #FPCD-79-9A, dated 15 January and 23 April 1979 respectively.

B. THE GAO CLUB REPORT

The last two-volume GAO report noted above was prompted by a written request from the Chairman of the House NAF panel subsequent to the 1977 club hearing. The 1977 club hearings centered around DOD implementation of the 1972 NAF panel recommendations and recommendations contained in earlier GAO reports. Based on the 1977 hearings, members of the NAF panel felt that in spite of some improvement in DOD club operations since 1972, military club management was still deficient in many areas. The GAO club review, conducted during 1978 at selected installations of the four armed services contained the following recommendations:

The Secretary of Defense should:

1. Strengthen management of the system by transferring responsibility for club operations from installation commanders to a strong central management authority. The present decentralized system has not been effective. A structure consisting of representatives from each service would provide that their specific needs receive appropriate attention. Such an action will require extensive planning and preparation. During the transition, the services should transfer responsibility for club operations from the installation commanders to their headquarters and assign club management personnel to these authorities.
2. Direct that profits from package store operations be used primarily to support essential morale, welfare, and recreation activities benefiting all base personnel.

Profits distributed to clubs should be limited to helping essential, financially troubled facilities to break even or finance capital improvements after all reasonable attempts to attain self-sufficiency have failed. These profits could be also used to fund indirect operational expenses associated with the central management authority.

3. Direct that package store and club operations be separated as they have been by the Army and Air Force in Europe to provide a clearer picture of club operations and package store distributions.
4. Direct that dependence on appropriated fund support to clubs be reduced and that the services civilianize club operations to the maximum extent practicable using nonappropriated funds.
5. Direct the military services to seriously consider consolidating club services when all attempts at achieving self-sufficiency have proven unsuccessful. Consolidation should be planned and designed carefully to ensure improved services to all eligible personnel...

In effect, GAO recommended changing from the existing military club system to one in which local commanders would be removed from direct operational management. The report cited examples of situations where local commanders had directed actions which adversely impacted the financial solvency of the military clubs under their jurisdiction. These actions included:

1. Establishing stringent club guest eligibility criteria. This action severely reduced club patronage at an already unprofitable club by prohibiting club members of one military pay grade from bringing guests of a lower/higher grade into the member's club. For example, a non-commissioned officer (NCO) could not bring junior enlisted personnel (pay grades E-1 through E-4) or an officer into the NCO club.

2. Continuing unprofitable operations at clubs which were underutilized and in heavy competition with commercial establishments and other nearby military clubs.

3. Directing the continuance of non-essential and highly unprofitable club food operations. In one instance an internal audit agency recommendation to eliminate the noon meal at a club was ignored by the local commander even though patronage for the noon meal was almost nil and expenses far exceeded revenue.

4. Allowing "tradition" to overrule viable attempts at consolidation of small, unprofitable clubs even in the face of possible closure of certain clubs due to impending financial insolvency.

5. Prohibiting personnel in uniform from being served alcoholic beverages during certain hours of the day despite the fact that there are no service regulations which impose or even suggest such a restriction.

It should be noted that GAO made no mention of instances where local commanders were supportive of efficient club management policies.

Volume two of the GAO club report contained results of a very extensive patron survey designed to measure service members' perceptions of military club operations. Strict adherence to generally accepted statistical procedures was undertaken to ensure the validity of the responses [45].

GAO stated that in their opinion the survey showed that:

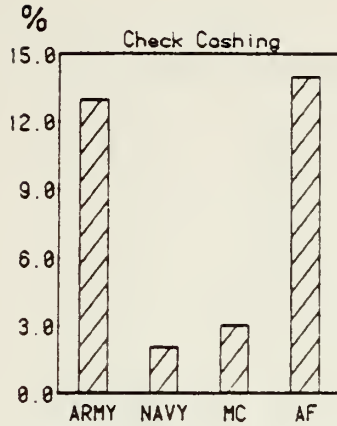
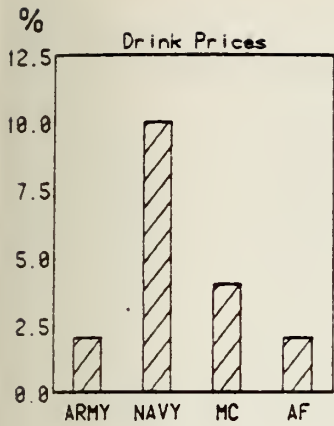
1. Although 56 percent of the military population uses the club once a month or more, 44 percent never uses it or uses it infrequently.
2. Overseas clubs are used considerably more often than clubs in the United States despite a significantly less positive attitude by service member toward the clubs.
3. Junior enlisted personnel are attracted by the clubs' low drink prices and entertainment and because the clubs are often one of few places available where they can eat, drink, and socialize. Poor entertainment, poor atmosphere, and preferring not to socialize with military personnel were reasons not to use the clubs.
4. Senior enlisted personnel use the clubs to cash checks, for low drink prices, to socialize with their peers, and because the club is often one of the few places available. Many do not use the club because of poor entertainment, atmosphere, service, and employee attitude, or because the club is inconveniently located.
5. Officers feel pressured or obligated to join their club but view it as a good place to socialize with their peers. They do not use the club because of its inconvenient location, poor food quality and poor entertainment.
6. Many enlisted personnel thought their club atmosphere was too military, too rowdy, or too ethnically oriented; and many officers thought the clubs were too military or too formal and old-fashioned.
7. If negative aspects were improved or eliminated, 45 percent of the population would increase their patronage.
8. If further actions are necessary to reduce operating losses, enlisted personnel would prefer to consolidate into "all ranks" facilities rather than modify prices and services or close unprofitable clubs. Officers would rather retain the traditional separation of ranks by increasing prices or reducing services.
9. Military personnel are generally satisfied with their alcoholic package stores...

There were significant variances noted in survey responses received from particular sub-groupings of personnel broken down by pay grade and/or branch of service. Figures 1 and 2, which are extracted from the GAO club report, show how various segments of the sample group differed in their responses to survey questions pertaining to "reasons for using the clubs." Figures 3 and 4 show aggregate responses of each strata of respondents to the question of: What is the most important reason for using the clubs? These bar graphs point out how perceptions of military clubs differ depending on the rank and/or service affiliation of survey respondents. For example, figure 1 shows that a higher percentage of Air Force personnel responded that they used the clubs for check cashing than their counterparts in the other branches of the armed services.

While little or no disagreement was generated over the validity of the methodology and raw results of the GAO patron survey, interpretation of the significance of the responses varied. GAO contended that the survey clearly showed that decentralized management was not working, both in terms of patron usage and perception of the clubs. DOD club officials in their official testimony before the 1979 NAF panel stated that they felt that while the GAO survey was informative, it did not conclusively show that the present club system was not working well. Informal discussion with various Navy club officials during the course of research for this report left the author with the distinct impression that these officials

Significant Variances in Reasons to Use Clubs

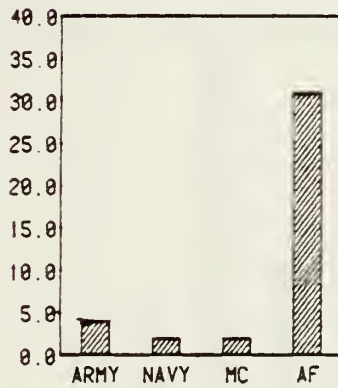
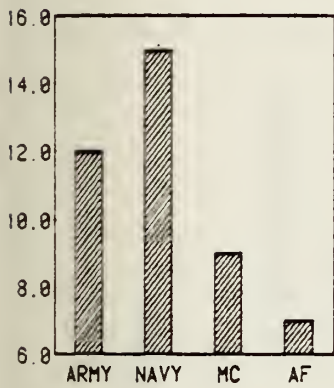
Officers



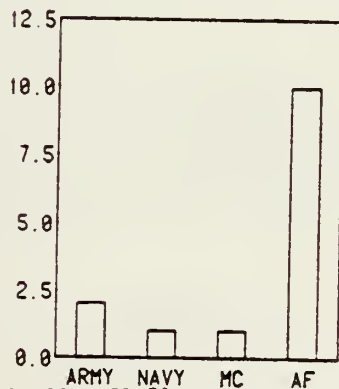
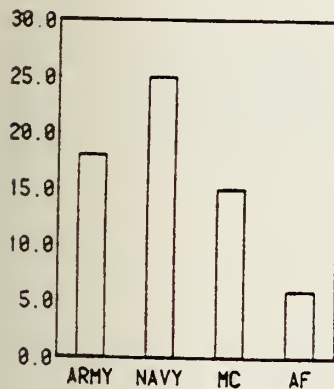
Entertainment

NO SIGNIFICANT
VARIANCE NOTED

Senior Enlisted



Junior Enlisted



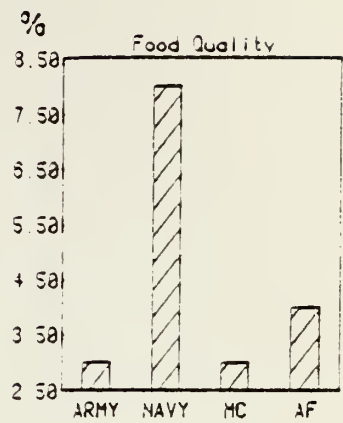
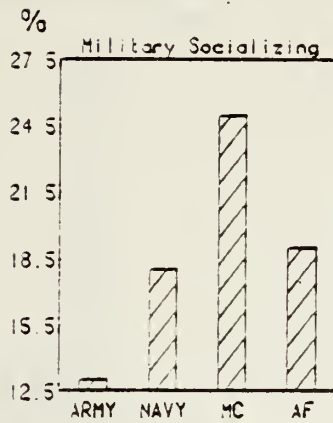
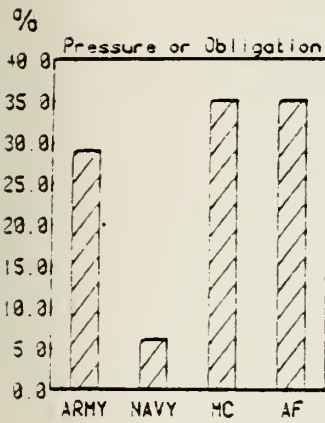
NO SIGNIFICANT
VARIANCE NOTED

SOURCE: GAO REPORT #FPCD-79-9A 23 APRIL 79

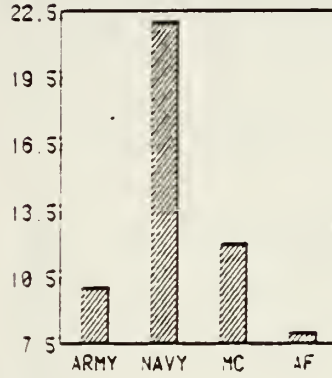
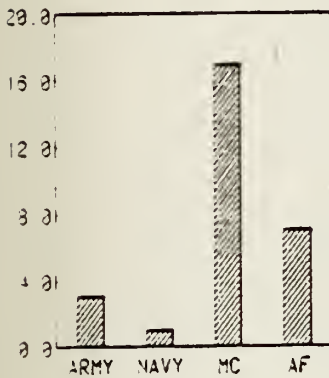
Figure 1

Significant Variances in Reasons to Use Clubs

Officers



Senior Enlisted



NO SIGNIFICANT
VARIANCES NOTED

Junior Enlisted

Junior enlisted personnel are not assessed club fees or pressured to join military clubs.

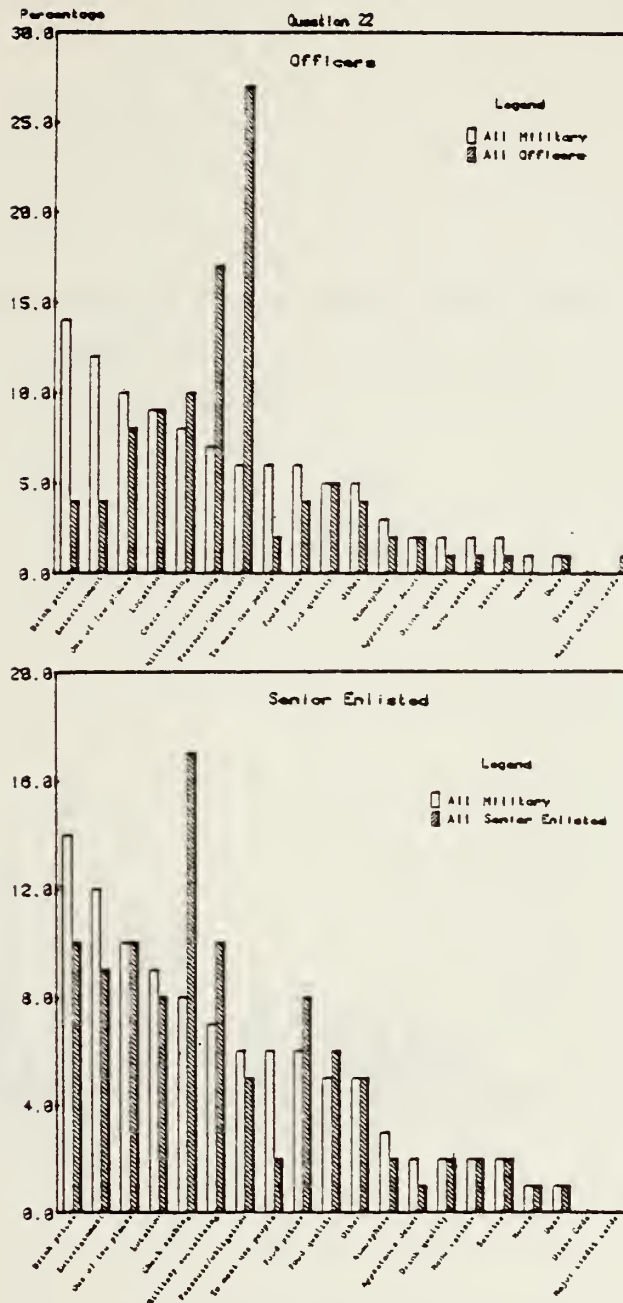
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SOURCE: GAO REPORT #SPC0-79-9A 23 APRIL 79

Figure 2

Single Most Important Reason to Join or Use Military Clubs



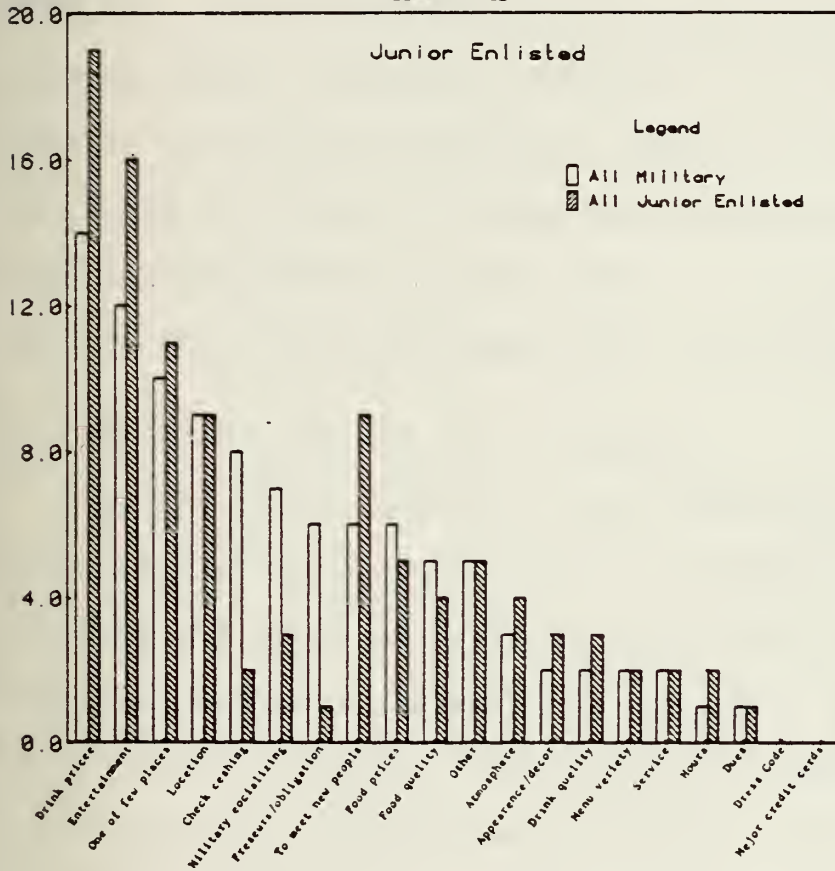
SOURCE: GAO REPORT # FPCD -79-3A 23 APRIL 79

Figure 3

Single Most Important Reason to Join or Use Military Clubs

Percentage

Question 22



SOURCE: GAO REPORT #FPCD-79-9A 23 APRIL 79

Figure 4

felt that the GAO report had more merit to it than the Navy, at least, wanted to "officially" admit. These officials did not testify before the 1979 NAF panel however, and their views may not have been representative of the majority of Navy managers. However, shortly after the release of the GAO club report, the Navy contracted a private consulting firm to perform an analysis of club operations [46]. Testimony given by Army, Air Force and Marine Corps representatives before the 1979 NAF panel indicated that they, too, were conducting similar in-house or contractor studies on military clubs and other MWR activities. Though the services may have questioned the significance of the GAO report, it was followed by a great deal of soul-searching among DOD club officials.

C. THE 1979 HASC NAF PANEL HEARINGS

The NAF panel conducted public hearings on military club operations during October, 1979. In addition to representatives of the armed services and GAO, the panel heard testimony from club managers, former club managers, and members of the International Military Club Executives Association (IMCEA), a professional organization of military club managers [47]. In March of 1980 the panel issued a report summarizing its findings and recommendations. The NAF panel's findings included:

1. DOD package liquor stores are very profitable. For example, in FY 1978 they generated approximately \$60 million in net income.

2. Military club operations, excluding package store operation, are not self-sustaining. In FY 1978 DOD clubs reported an aggregate net deficit of \$18.3 million despite receiving \$98 million in appropriated fund support and \$40 million in dues levied on members [Ref. 48].

3. The armed services, with the exception of the Navy and Europe-based Army and Air Force clubs, had not complied with the 1972 NAF panel's recommendation to separate club and package store fiscal operations.

4. The armed services had not complied with the 1972 NAF panel's recommendation that package store profits should be applied to post/base welfare funds (i.e., recreational services --camping equipment, boating, gyms, child care services, etc.) vice military clubs. For example, in 1978 74 percent of all DOD package store profits were plowed back into the clubs.

5. There were no common DOD guidelines for distributing package store profits. The Navy, for example, left total discretion for package store profit distribution up to the local commander. The other services required "some" portion of package store profits to be applied to recreation activities. In actual practice, the overall dollar value of package store profits applied to recreational activities by each of the four armed services lagged behind the amount of package store profits distributed to the military clubs. In many cases the disparity between recreation and club percentages of local package store profits was wide [49]. Even with this "support"

from package store profits, 22 percent of the clubs still lost money during FY 1978. Without the package store profit "support," the percentage of clubs losing money during FY 78 would have swelled to 57 percent. Figure 5 contains detailed profit/loss figures, package store profit transfers, and amounts of appropriated fund support for FYs 1977 and 1978.

6. By distributing club and package store profits at the local level vice on a service-wide basis, the services have ignored their worldwide club requirements. In effect, the rich clubs at heavily populated bases continued to get richer, while many of the clubs located at small, isolated bases within the continental United States (CONUS), continued to have a hard time financially. Figure 6, for example, shows that as of the end of FY 78 every Navy club with cumulative cash balances greater than \$100 thousand also received significant package store contributions during the same year. Under the Navy centralized banking system, club profits are plowed back to the contributing clubs, the cumulative cash balances of the "rich" Navy clubs increased annually. Meanwhile, some Navy clubs with no package stores or a small patron base had to resort to dues, higher prices, and/or reduced levels of service in order to stay solvent [50]. Similar conditions existed for the Army, Air Force, and Marine Corps.

MILITARY CLUB FINANCIAL INFORMATION
FYs 1977 and 1978

Appropriated Fund Support

	(Millions)		Increase/ Decrease	% Increase/ Decrease
	FY 77	FY 78		
Army	\$29.6	\$33.3	+3.7	+12.5
Navy	21.5	26.9	+5.4	+25.1
Air Force	35.2	30.6	-4.6	-13.1
Marine Corps	<u>6.7</u>	<u>7.1</u>	<u>+0.4</u>	<u>+ 0.6</u>
Total	\$93.0	\$97.9	+4.9	+ 5.3

Club Profits (Losses) with/without
Package Store Profit Distribution

	Loss Before Package Store Distribution (Millions)		Package Store Distribution (Millions)		Reported Net Income after Package Store Distribution (Millions)	
	FY 77	FY 78	FY 77	FY 78	FY 77	FY 78
Army	\$-1.0	\$-2.3	\$11.4	\$13.6	\$10.4	\$11.3
Navy	-4.0	-5.9	8.7	10.2	4.7	4.3
Air Force	-10.1	-9.3	12.9	13.6	2.8	4.3
Marine Corps	<u>-0.5</u>	<u>-0.8</u>	<u>1.8</u>	<u>2.1</u>	<u>1.3</u>	<u>1.3</u>
Total	\$-15.6	\$-18.3	\$34.8	\$39.5	\$19.2	\$21.2

Number of Percentage of Unprofitable Clubs

	Before Package Store Distribution				After Package Store Distribution			
	Number		Percent		Number		Percent	
	FY77	FY78	FY77	FY78	FY77	FY78	FY77	FY78
Army	a/139	109	a/53	42	59	41	22	16
Navy	188	216	55	40	89	72	29	26
Air Force	202	189	61	59	90	88	27	27
Marine Corps	<u>42</u>	<u>44</u>	<u>56</u>	<u>59</u>	<u>17</u>	<u>8</u>	<u>25</u>	<u>15</u>
Total	571	558	57	56	255	209	26	23

a/ Estimates based on Army data

Source: Data furnished HASC staff by individual branches of armed services.

Figure 5

LIST OF INDIVIDUAL U.S. NAVY CLUBS WITH \$100,000 OR MORE CASH BALANCE ON
HAND WITH THE MESS CENTRAL ACCOUNTING UNIT (MCAU) AS OF THE END OF FY 1978

	CLUB CASH BALANCE	FY 78 PACKAGE STORE CONTRIBUTION TO CLUB		CLUB CASH BALANCE	FY 78 PACKAGE STORE CONTRIBUTION TO CLUB
<u>CONUS AREA</u>					
<u>COMO</u>			<u>EMO</u>		
NNMC Bethesda	\$ 313,884	\$254,742	NAS Norfolk	\$530,163	\$ 84,002
NTC San Diego	138,062	69,355	NETC Newport	672,045	37,725
NAS Patuxent River	164,279	36,212	NAS Memphis	390,839	69,604
NAS Oceana	156,727	66,370	NAVSTA Charleston	166,769	29,513
NAVPGSCOL Monterey	128,836	121,784	CBC Port Hueneme	153,906	32,726
NAVSTA Charleston	129,942	3,235	NTC Orlando	137,356	10,327
WPNSTA Earle Colts Neck	143,420	84,916	WPNSTA Yorktown	146,346	24,726
NAS Dallas	103,674	23,553	PHIBASE Little Creek	119,081	7,464
<u>CPOMO</u>			<u>CMO</u>		
NSA Philadelphia	\$1,022,113	\$164,187	NSA Brooklyn	\$191,160	\$179,787
NAS Norfolk	120,940	129,553	<u>EUROPEAN AREA</u>		
NTC San Diego	233,284	30,196	<u>EMO</u>		
NETC Newport	230,964	42,978	NAVSTA Roosevelt Roads, Puerto Rico	\$399,896	\$141,276
NAS Memphis	227,558	38,102	<u>PACIFIC AREA</u>		
NAS Jacksonville	160,849	29,167	<u>COMO</u>		
NSA Long Beach	144,357	83,916	NAVSTA Subic Bay, Philippines	\$110,067	\$ 23,599
NSA Moffett Field	105,484	55,469	<u>CMO</u>		
<u>POMO</u>			NAVSTA Guam	\$191,745	\$160,744
NAS Norfolk	\$ 970,405	\$143,326	CHJUSMAG Quezon City, Philippines	154,540	39,777
NAVSTA San Diego	503,556	94,225	NOF Sasebo, Japan	487,052	10,300
NAS Oceana	492,082	95,122			
PHIBASE	214,964	69,334			

LEGEND:

MCAU--Mess Central Accounting Unit, Located at Patuxent River, Maryland
 CONUS--Continental United States
 COMO--Commissioned Officers' Mess Open--Officers' Club
 CPOMO--Chief Petty Officers' Mess Open--Chiefs' Club (Enlisted Pay Grades E7-E9)
 POMO--Petty Officers' Mess Open--Petty Officers' Club (Enlisted Pay Grades E5-E6)
 EMO--Enlisted Mess Opne--Enlisted Club (Enlisted Pay Grades (E1-E4)
 CMO--Consolidated Mess Open--All Ranks Club (Open to all service members)
 CBC--Construction Battalion Center
 CHJUSMAG--Chief, Joint U.S. Military Advisory Group
 NAS--Naval Air Station
 NAVSTA--Naval Station
 NSA--Naval Support Activity
 NETC--Naval Education and Training Center
 NNMC--National Naval Medical Center
 NOF--Naval Operating Forces
 NAVPGSCOL--Naval Postgraduate School
 PHIBASE--Amphibious Base
 WPNSTA--Weapons Station

SOURCE:

The above figures were compiled from data submitted to the professional staff, House Armed Services Committee by U.S. Navy, Office of Legislative Affairs under cover letter LA-61:r, dated 17 April 1979.

Figure 6

NAF Panel Recommendations

a. Package store profit distribution:

1. Package store operations should be fiscally separated from club operations so that both operations are clearly visible.
2. Package store profits, including their distribution, should be controlled and centrally managed by the service headquarters groups, and worldwide needs be considered when these profits are distributed.
3. Profit goals should be developed for the clubs excluding package store distribution.
4. With the exception of clubs located at remote and isolated sites, package store profits not be used as operating income for clubs. Any distribution to a club should be an indirect subsidy to offset capital improvements, construction, or certain administrative and overhead expenses such as central accounting or personnel costs.

The panel recognizes that abrupt withdrawal of package store profits could have an adverse impact on club operations and, therefore, recommends that the latter recommendation be implemented no later than the end of fiscal year 1982 [Ref. 51].

b. Civilianization of club manager positions:

Military club positions should be civilianized to the maximum extent possible and where feasible, nonappropriated funds be used for these positions... [Ref. 52].

c. Properly reflecting the amount of appropriated fund support provided to the military clubs:

- (1) DOD should establish the necessary management reporting tools to assess appropriated and nonappropriated manpower utilization and make comparative and trend analysis among and within each service with the goal of reducing appropriated fund support.
- (2) Appropriated fund support to individual clubs be reflected in their financial statement [Ref. 53].

d. Establishing stronger central management authority at the Office of Secretary of Defense (OSD) and service headquarters levels:

- (1) OSD should provide additional staff resources to effectively carry out its oversight responsibilities. Service headquarters' authority to enforce technical assistance and internal audit recommendations should be strengthened.
- (2) OSD, in cooperation with the services, should develop one set of standard, simplified regulations similar to the Armed Services Exchange Regulations. The regulations should be easy to read and consistent with standards of the hospitality industry. Recognizing that profitability is not the clubs' major objective, the Panel believes that the clubs can be run in a business-like manner, and that profitability is not consonant with the clubs' objectives to foster morale, esprit de corps, and patron satisfaction.
- (3) The services should seriously consider centralizing certain administrative functions such as accounting, procurement, investments, cash management, and club manager recruiting and assignments.
- (4) The services should continue to take advantages of training programs offered by other services with the long-range goal of consolidating training programs and facilities...[53].

The panel also directed the services to share the findings of in-house and contractual club studies with the NAF panel and with each other.

d. Summary of the NAF Panel Report:

Two points are noted here regarding the relationship between the armed services and the HASC.

First, the HASC, along with its counterpart in the Senate, is an extremely powerful and important Congressional committee. No monies can be "appropriated" to DOD and individual branches of the armed services without first being

"authorized" by the Senate and House Armed Services Committees. Therefore, even though control of nonappropriated funds is technically outside the realm of the HASC, the Committee wields tremendous leverage over armed service MWR activities as a result of its direct control over appropriated DOD funds.

Second, the HASC has traditionally been a "pro-military" committee. While some individual HASC members have on occasion argued for cuts in defense spending, for the most part the HASC has supported defense needs. This was especially true of the NAF panel, whose membership in the '70s included legislators representing Virginia, Texas, Guam, South Carolina, Alabama, New Mexico and California--areas which had heavy concentrations of military installations and constituents.

The overall objective of the NAF panel was to ensure efficient and effective club management, not to chip away at the service members' benefits. The opening remarks of Chairman Daniel during the 1979 hearings emphasizes this point.

Today the panel begins the hearings on military clubs or "open messes" and the operation of the related alcohol package stores. DOD considers clubs to be important to the morale and well-being of service members and believes they contribute to unit identity, esprit de corps, and improved combat readiness. In effect, clubs support the missions of the military services. This committee agrees with that assessment.

Inquiry by this panel and others into programs designed to enhance the well-being of military members and their families must not be viewed as diminishing support for such programs. Our objectives are to improve the delivery of services to those who should be getting them, and our motivation is to explore alternatives that will accomplish this...[Ref. 54].

While the 1979 NAF panel reports on military clubs was critical of some DOD club management practices, an adversary relationship did not exist between the committee and DOD. The panel report stopped short of mandating the GAO recommendation of establishing a central DOD club agency, but it served notice on armed service officials that quick and responsive implementation of its club management recommendations was expected [55].

D. DOD ATTEMPTS TO IMPROVE CLUB MANAGEMENT

There were attempts by the armed services to improve club management during the 1970s. Whether or not these changes were spurred on by external pressure, or resulted from an internal awareness of problem areas at the DOD and service headquarters levels, is debatable. Whatever the reasons, some major changes were made. For example:

1. 1971--The services began hiring CPA firms to conduct annual "system wide" financial audits of their clubs.

2. 1973--The Navy implemented a standardized central accounting system for all Navy clubs--officer and enlisted. The Air Force and Army later established similar systems.

3. 1973--Air Force established a central nonappropriated fund (NAF) procurement office to take advantage of dollars savings available on large merchandise orders. The Army also established a NAF procurement office.

4. 1973--The Navy, along with the Air Force and Army, initiated the California tri-service liquor procurement

service in the San Francisco Bay area. The program allowed clubs to buy package liquor at the lowest cost from out of state distributors. In addition to avoiding payment of California liquor taxes, this arrangement has taken advantage of economies of scale in purchasing.

5. 1974--DOD issued the DOD Personnel Policy Manual for Nonappropriated Fund Instrumentalities, which established for the first time DOD-wide nonappropriated fund personnel policies on recruitment, retirement benefits, salaries, labor relations.

6. 1975--DOD conducted a one-time worldwide survey to gather demographic data on MWR activities.

7. 1975--Air Force as well as the other services began using club "management assistance" teams to provide free technical assistance to individual club managers.

8. 1975--The Navy conducted an extensive attitude survey of 10,000 active duty Naval personnel's leisure time eating and drinking activities (LTEAD). The LTEAD survey was widely distributed to Navy club management officials for use in understanding and capitalizing on the existing club patron market.

9. 1976--The Navy consolidated headquarters management of all club operations under the Chief of Naval Personnel. Formerly, enlisted clubs had been managed, along with Navy commissaries and exchanges, by the Navy Resale and Services Support Office (NAVRESSO).

10. 1977--As directed by the Senate Appropriations Committee, "essential" funding requirement for officer personnel (closed messes) were merged into the mission of the Armed Services Open Messes (clubs).

In addition to the initiatives noted above, OSD in 1978 formed a DOD MWR coordinating committee made up of high ranking club officials from each of the armed services. The objectives of the committee were to:

- (1) Compile a list of military club functions.
- (2) Determine the appropriate level of command which should exercise decision making authority for each function.
- (3) Examine organizational responsibilities for establishing operational guidelines (e.g., dress codes, hours of operation, profit distribution formulas, establishment/closure of clubs).

Also, a club and package store panel was established as one of six permanent subcommittees of the MWR committee. The first written report of the MWR committee was due at the end of FY 1979.

E. EXTERNAL FACTORS AFFECTING MILITARY CLUB OPERATIONS

There were a number of factors which affected military club operations in the 1970s. Double-digit inflation was a prime example. Wages of NAF employees are evaluated on an annual basis by the Civil Service Commission. Adjustments, almost always upward, are made regionally based on comparable civilian sector salary scales. All NAF employees, including those whose earnings are heavily supplemented by gratuities

(e.g., waiters and waitresses) are subject to prevailing state and federal minimum wage laws. With double-digit inflation, the clubs' personnel expenses have increased faster than revenues.

Federal legislation has also impacted the clubs. Overseas clubs, for example, must under various status of forces agreements, hire specified percentages of foreign nationals to work in the clubs. Often labor arrangements worked out are influenced by political and military practicalities rather than the financial best interests of the clubs. Particularly burdensome to overseas club managers were [56]:

1. The inability to hire and fire part-time temporary employees, as dictated by fluctuations in the volume of business.
2. The requirement that each club maintain adequate cash reserves to pay termination fees to foreign national employees in the event of a base closure.

For both overseas and CONUS-based clubs, health care provisions, retirement, and leave benefits for NAF employees were also much more liberal and costly than comparable private sector restaurant standards [57]. In the case of package liquor sales, Federal law requires military package store prices to be within 10 percent of the prevailing local prices. With repeal of "fair trade" laws in many states, this restriction has resulted in instances where cheaper prices for package alcoholic beverages can often be obtained at commercial stores than at on-base package outlets. For example, supermarkets and discount drug stores can selectively advertise "specials"

on a particular beer or wine in order to attract patrons into their stores. Consequently, the base package store price for the same item may temporarily be higher than the "special" promotion price at an off-base outlet.

As noted earlier, FY 78 and FY 79 DOD appropriations contained reduced ceilings on the number of military personnel assigned to MWR activities. These decreases, in effect, reduced the level of appropriated fund support for the military clubs. Though GAO contended in their 1979 report that the FY 78 and FY 79 cuts did not appreciably impair operations at most MWR activities, if the trend continues the clubs at some point will have to develop new revenue sources to fund essential functions previously performed "free" by military personnel.

Competition from commercial and other on-base dining and entertainment establishments increased during the 1970s. At the beginning of the decade, the salary scale for junior enlisted and officer personnel was so low that in many instances these personnel did not have sufficient discretionary funds to use at most off-base clubs. With the advent of the all-volunteer armed services, pay scales for these junior service personnel increased, even allowing for inflation. Loss of significant portions of this "captive market" was felt on the balance sheets of many CONUS clubs during the early 1970s.

Presidential pay caps on military pay increases and the increased inflation rates of the later 1970s eroded the

effects of previous salary increases and consequently a trend towards increased use of the clubs may be in the offing for the 1980s. In any event, increases in inflation and salary, which are both out of control of club officials, can exert influence on the military club patron base.

On base, competition from fast food outlets operated by the various "exchange" agencies also siphoned off some potential club customers. Finally, the 1970s saw an increase in the number of discos and fast food franchises catering to all types of entertainment and dining tastes. The military clubs had to meet the needs of all potential patrons and as a result lost customers who were interested in obtaining only one particular type of food or music (e.g., the clubs could not exclusively utilize a hard rock, country and western, soul band, as a private club could). Many military clubs tried to be "all things to everybody" with disastrous financial results.

The question of "who to cater to" was complicated by the fact that although military clubs ostensibly were provided for the benefit of active duty personnel and their dependents, retired military personnel often constituted a portion of the club's patron base. According to GAO, in 1978 between 17 and 18 percent of military club members were retired personnel. At some clubs, usually those in metropolitan areas, the percentage of retirees was much higher. At the Officers Clubs at the Naval Training Center, Orlando, Florida, and at the Marine Corps Air Station, Santa Ana, California, for example,

retirees constituted 89 and 43 percent respectively, of the club members. When coupled with the already wide age scale of active duty officers (21 to 50 plus years of age), one can readily see some difficulties in adequately serving the full range of entertainment needs of officer club patrons. The problem has not been as acute with various types of enlisted clubs which serve narrower age ranges.

Another external factor which further complicated club management policies was fluctuations in the complement of military personnel assigned to a military activity. One Navy club official told the author of a situation at a midwestern base where the number of authorized officers was reduced by higher authority from 200 to 54 within one year. Reacting properly to such a sudden change in club patron base is difficult at best. At the base in question the club was kept open because of its isolated location. Membership privileges were extended to civilian DOD employees in order to offset the loss of revenue resulting from the decrease in the number of uniformed service personnel. Base realignments and closures are common occurrences in the military and unfortunately not all clubs are able to find new revenue sources when closures and realignments occur.

With all of the complications and problems associated with running a military club, one might ask what type of person would seek such a job. No hard data on backgrounds of club managers is maintained by the armed services. Discussions with

cognizant club management officials, however, indicated that retired military personnel with service experience in the club management area have been the prime source of military club managers. Since the Navy has civilianized its club manager positions and the other services are under strong pressure to do the same, the pool of available ex-military club managers will shrink as time passes. This means that other sources of club management talent will have to be utilized more (e.g., graduates of college level hotel management curricula). The International Military Club Executives Association (IMCEA) has gone on record as being critical of current DOD club manager recruiting and retention efforts [58]. They contend that improvements in salaries, fringe benefits, and a competitive career progression program are needed to ensure that superior club managers are not lured away by lucrative offers from the private sector. Presently none of the armed services has instituted central management of club personnel. GAO, NAVAUDSVC, and NAF panel members have been critical of this deficiency. Representatives of the IMCEA, in testimony before the 1979 NAF panel, have also supported the establishment of a central DOD office to handle the recruitment and salary structure of civilian military club managers. Since the club manager functions where "the rubber meets the road," any attempts to improve club management must include provisions to support a well trained cadre of professionals.

F. CHAPTER SUMMARY

The '70s brought changes to the military club system. Some changes were initiated by the Armed Services; however, military club officials, for the most part, operated in a reactive mode. Congress, GAO, internal audit agencies, and non-controllable external factors (i.e., inflation, legislation, all-volunteer military force structure, etc.) exerted considerable pressure on military club operations. As the clubs enter the 1980s, one of the challenges that they will face is: How best to structure and operate a club system that meets the needs and desires of service members as well as the requirements and restrictions of Government regulatory bodies.

IV. THE NAVY CLUB SYSTEM--1980

"The basic mission of the Navy Mess (Club) System is to promote and maintain the well-being, morale and efficiency of officer and enlisted personnel by providing dining, social, and recreation facilities. This mission is in direct support and is an integral part of the Department of the Navy's primary mission of fleet readiness of which a vital element is personnel readiness...."

(Rear Admiral C. J. Seiberlich
1977--NAF Panel Testimony)

In the preceding chapters, attention has been focused on the management and operation of military clubs from a Department of Defense (DOD) perspective rather than from the vantage points of the individual branches of the armed services. While all DOD clubs share some basic features, each service has established a club system that differs somewhat in organizational structure and management philosophy from that of its sister services. Many of these differences can be attributed to the varying structures, missions, and geographies of each service. For example, the Navy's reluctance to charge club dues stems from the transient nature of ship-based sailors--even during peacetime [59]. Other differences rest heavy on tradition and as noted by the General Accounting Office (GAO), House Armed Services Committee, Nonappropriated Fund Panel (NAF) panel members, and internal DOD auditors, their current applicability has often been exempted (consciously or otherwise) from high level review [Ref. 60].

Ideally, a study of the military clubs should include a detailed analysis of the organizational structures and operating procedures utilized in each of the four military club systems. Time constraints, however, limited the scope of the study. Consequently, the remainder of this report will deal principally with the Navy club system. Features of the Army, Air Force, and Marine Corps club systems will be noted only to contrast Navy practices and procedures.

A. CONGRESSIONAL PERCEPTIONS OF THE VARIOUS ARMED FORCES CLUB SYSTEMS

DOD and service instructions emphasize that clubs and other morale, welfare, and recreation (MWR) activities primarily exist to enhance the quality of life for service members. The comments of Admiral Seiberlich, Deputy Chief of Naval Personnel, reinforces this point. While financial data on the various military club systems are available and can be arrayed or manipulated to show how one service branch stacks up against the others, rankings based solely on this data might be misleading. Though clearly important to successful club operations, profits are not the prime objective of military club managers. Consequently, in evaluating how well the clubs are performing, surrogate measures of club patron attitudes (e.g., club usage figures, number of dues paying members, questionnaires) have sometimes been used to supplement raw financial data. However, even the patron surveys conducted by GAO and the services in-house do not provide clear cut

evidence to support any ranking of the various military club systems.

Nonetheless, it was clear to the author in conducting this research that cognizant officials looking into DOD club activities (i.e., NAF panel, GAO, auditors, senior club officials) do tend to rank the club systems in some sort of order. GAO, and particularly the NAF panel members, stated that of the four existing service club organizations, the Navy club system was managed "best." Chairman Daniel, during testimony given by Rear Admiral Fran McKee, during 1979 club hearings before the NAF panel, made the following statement:

Your response, Admiral, has been quite adequate, and we appreciate very much your cooperation.

As a matter of fact, the committee would like to commend the Navy on certain aspects of its club operations, and package stores. I think the Navy is the only service which has totally separated package stores from club operations and developed a separate central fund at the headquarters level. Also, it operates most of the clubs without charging dues, which means that Navy clubs are open to all Navy personnel.

In reading the GAO survey, Navy personnel seem to be more positive toward their clubs, and particularly their prices. Reliance on nonappropriated fund support from package store profits is generally lower in the Navy, and, finally, in our judgment, based on these reports, Navy clubs are better managed than are the other services, and we do want to compliment you on that... [61].

The NAF panel's response to the Navy Department statements was in sharp contrast to the panel's appraisal of other DOD testimony. The difference in the tone of questions put to Navy representatives, as opposed to their counterparts from the other services, was so marked that Congressman Daniel

further explained the difference in treatment. The following excerpt was taken from the written report of the hearings:

... Projecting my thoughts into the evening, at the local military clubs I can hear the witnesses who appeared from the other services saying, "I wonder why that committee created such a good climate, a favorable climate, for the taking of testimony from that lady admiral.

Let me make it perfectly clear that we believe completely in equality.

... I believe that people are motivated by the expectation of reward or the fear of punishment in whatever form it takes.

The Navy has done an exceptional job, when compared or measured against some of the other club systems, and, Admiral, in my judgment you're deserving of reward. [62].

The NAF panel's "positive" perception of the Navy club vis-a-vis the other services' club systems is important to the extent that when and if club changes are mandated by the Congress, the Navy will not have to undergo many changes in order to conform to the GAO HASC/club models. Figure 7, which depicts the characteristics, as viewed by the author, of the four military club systems and the HASC and GAO "model" systems, points out the fact that the 1980 version of the Navy club system more closely approximated the HASC/GAO models than the other services.

B. OVERVIEW OF THE NAVY CLUB SYSTEM

Having noted some of the strong points of Navy club management, it is appropriate to present an overview of the entire Navy club system. Figure 8 attempts to depict the organizational structure of the system. The commissary store, ships'

5

5

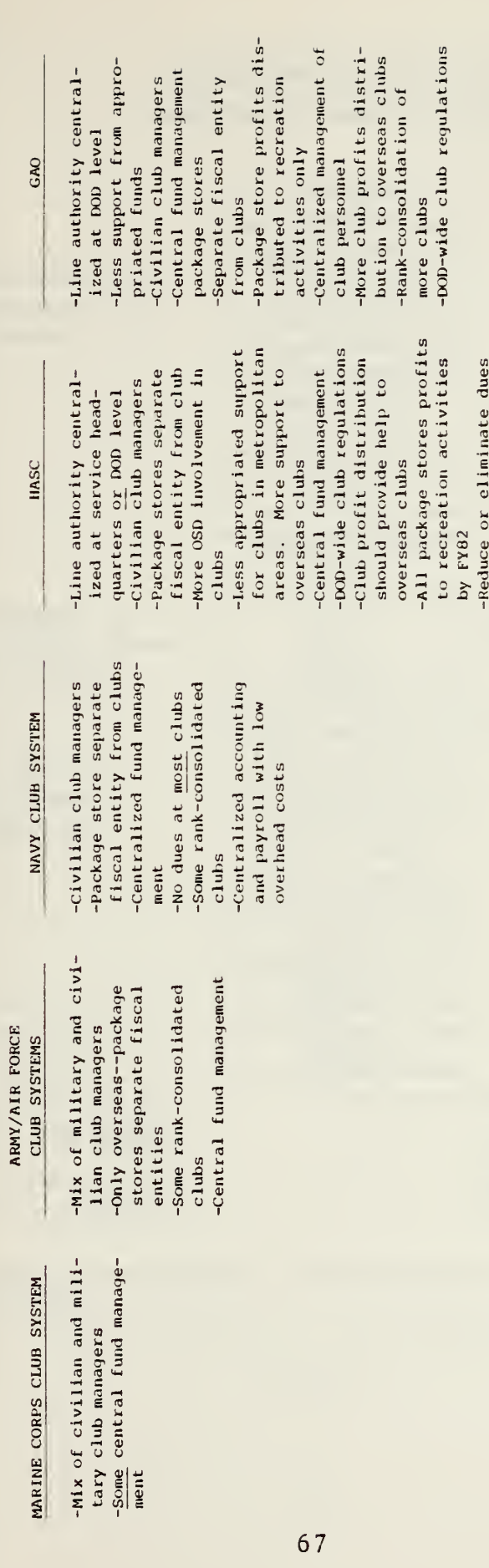


Figure 7

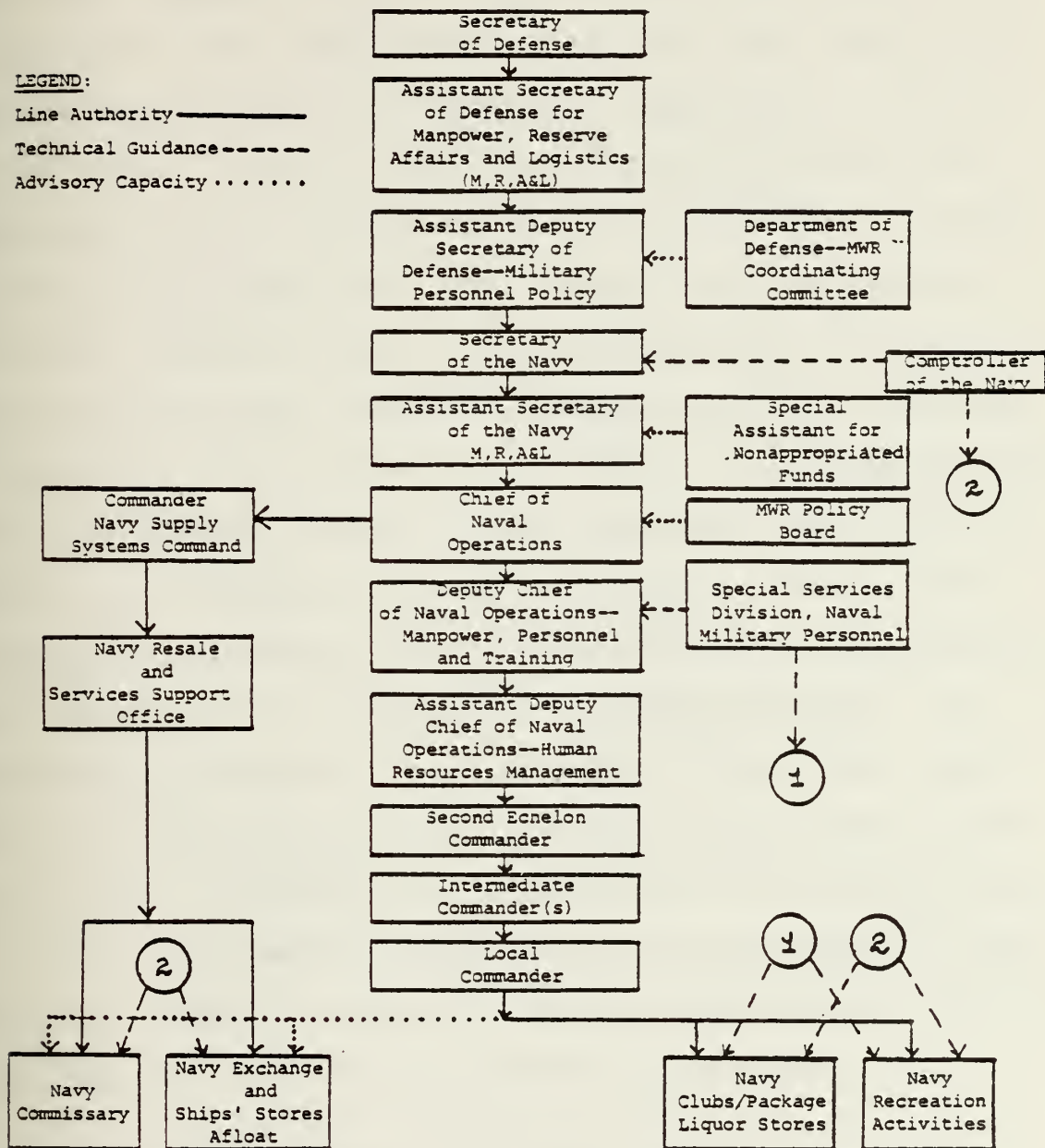
ORGANIZATIONAL STRUCTURE OF NAVY
MORALE, WELFARE, RECREATION ACTIVITIES

LEGEND:

Line Authority —————

Technical Guidance - - - - -

Advisory Capacity



NOTE: Commissaries and ships stores, unlike other MWR entities, are appropriated fund activities.

SOURCE: Compiled from various U. S. Navy publications

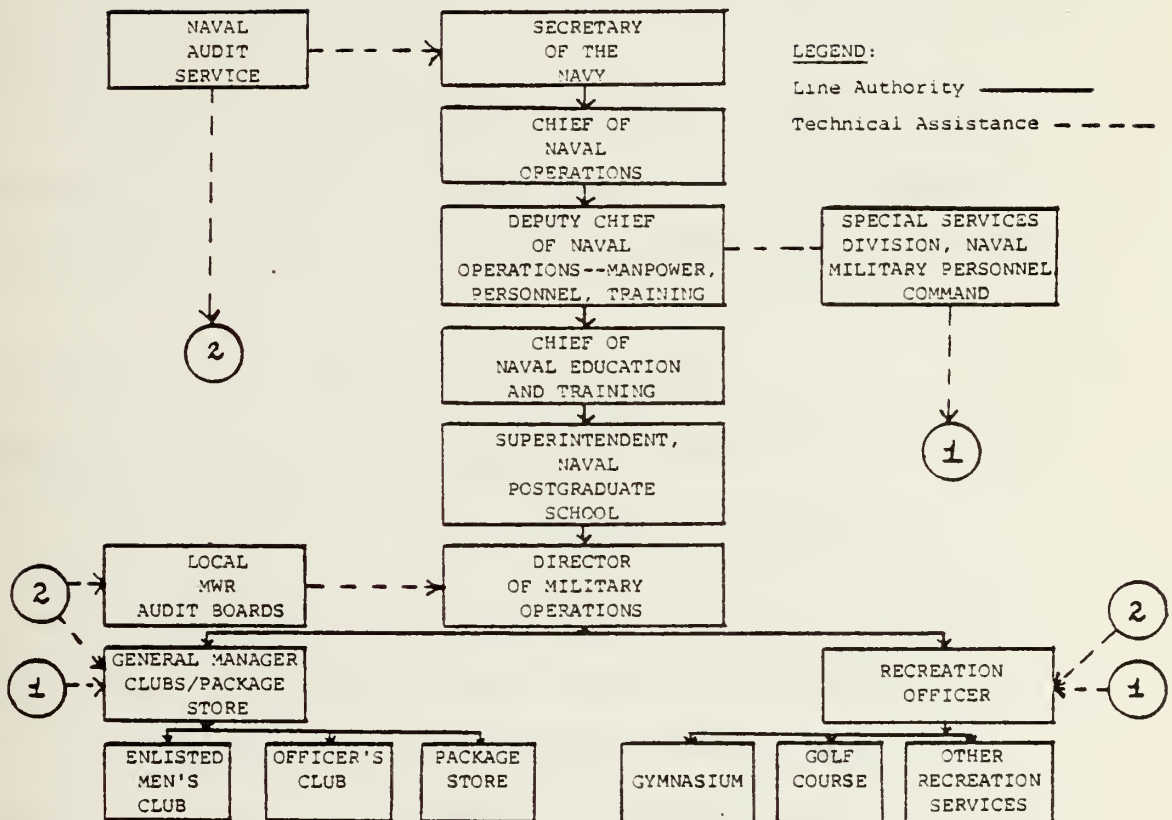
Figure 8

stores afloat and Navy exchanges have been included in the diagram in order to show contrasts between these centralized management organizations and the decentralized organization of the Navy clubs. The diagram also shows that the Navy recreation program shares the identical organization structure as the clubs. Figure 9 shows the club and recreation hierarchy for the U.S. Naval Postgraduate School (NPS). Between the Navy headquarters and local levels, the line authority hierarchy changes for each particular Navy base, although the basic organizational structure remains essentially the same for all Navy clubs overseas or in CONUS. For example, at the Naval Air Station, Moffett Field, California (NAS-Moffett), three senior commanders (Commander in Chief, Pacific Fleet (CINCPACFLT), Commander Naval Aviation Pacific (comnavairpac), and Commander Patrol Wings Pacific (COMPATSWINGSPAC), all exercise line authority over the clubs. Unlike NPS, where there are separate recreation and club organizations at the local level, NAS-Moffett has established a consolidated club/recreation department. Though they differ somewhat in organizational structure components, NPS and NAS-Moffett clubs are still operated under the same general guidelines.

C. MANAGEMENT OF CLUBS AT THE BASE LEVEL

While line managers at various Navy echelons can and do issue pertinent club related instructions and directives, periodically conduct club inspections, approve operating

ORGANIZATIONAL STRUCTURE OF CLUBS
AND RECREATION ACTIVITIES
AT THE NAVAL POSTGRADUATE SCHOOL



SOURCE: U. S. Naval Postgraduate School Instruction 5400.2

Figure 9

budgets, review club financial statements and approve new club construction/alteration requests, day-to-day club operations usually come under the purview of the local commanding officer (CO). The CO can hire/fire club employees, dictate hours of operation, standards of dress, membership/guest criteria, price structure for services rendered and entertainment choices; and as previously noted, delineate package store profit distribution policy.

In practice, it is the rare CO who has the time to get too involved at this level. Consequently, at most commands, organizations have been established to ensure that the clubs are:

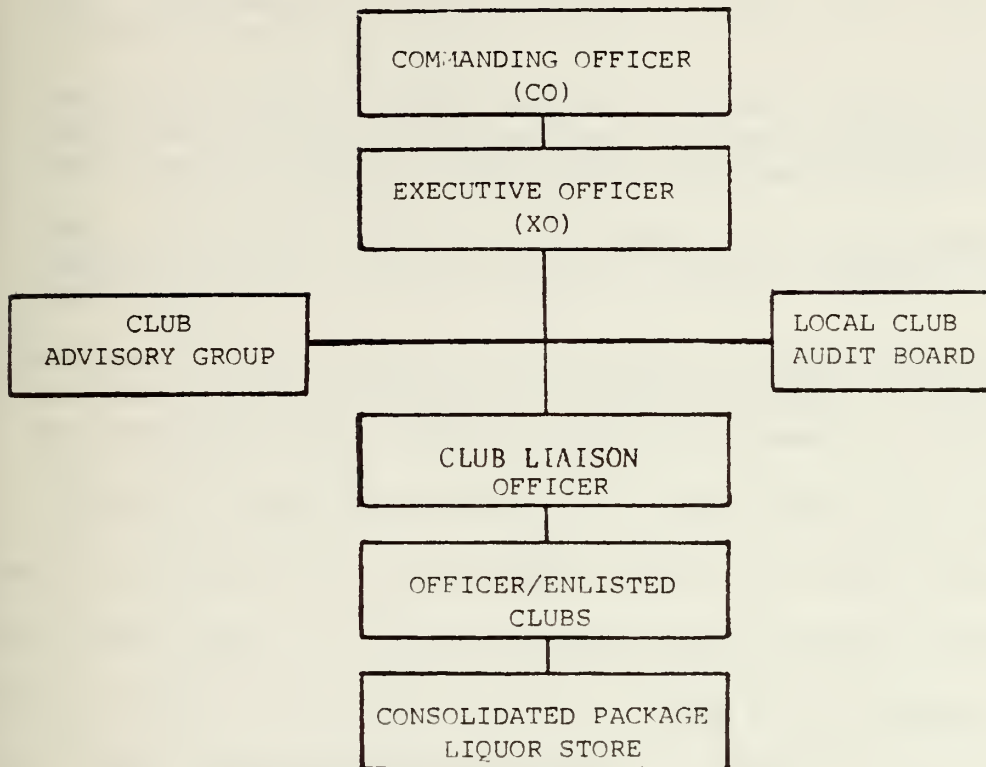
- Responsive to the needs of base personnel;
- In compliance with financial and operational controls prescribed by higher authorities;
- Are not guilty of fraud, waste and abuse violations.

A typical local club organization is noted in Figure 10. Individual local club organizations (such as NPS and NAS-Moffett) would, of course, vary somewhat depending on the size of the base involved, number of personnel assigned, and number of clubs on base.

The significant amount of the CO operational control over clubs and other MWR activities stands in marked contrast to his control over many other base support activities. In recent years the Navy has centralized many base functions and taken them away from the operational control of local COs.

Examples include:

TYPICAL CLUB ORGANIZATION
AT A U. S. NAVAL ACTIVITY



LEGEND:

CLUB ADVISORY GROUP--Representatives of military personnel, dependents, retirees who advise CO on club operations

LOCAL CLUB AUDIT BOARD--Comprised of military and civilian personnel not directly involved in club operations. Conducts periodic cash counts, inventories, and prescribed checks of management operations

CLUB LIAISON OFFICER--Senior club manager who may also double as manager of one of the clubs. Usually has charge of central club operations (i.e., bookkeeping, payrolls, purchasing, financial reporting)

SOURCE: Bureau of Naval Personnel Training Course
For Local Audits of Nonappropriated Fund
Activities, Workbook #1

Figure 10

- Medical/dental dispensaries--consolidated with regional medical centers;
- Base maintenance--consolidated at many large bases under a Public Works Center;
- Personnel payrolls and administration--consolidated into Civilian Personnel Offices and Personnel Administration and Support Service Offices for military personnel;
- Navy Exchanges/commissaries--under the operational control of the Navy Resale and Services Support Office (NAVRESSO);
- Disbursing and accounting--large portions consolidated at Authorized Accounting Activities (AAAs). AAAs often are geographically removed from the bases they serve.

Club officials at the Navy Military Personnel Command--Special Services Division (NMPC--Code 65) noted that many COs were upset about any further diminution of their authority and tend to view club centralization attempts as further eroding their basic command responsibility. Whether or not this perception of club consolidation is valid, the high degree of skepticism that many local line managers have toward central club management initiatives could significantly hinder any plans to realign the Navy club system.

During the 1979 HASC NAF panel club hearings, club managers got an opportunity to air their views on military club operations. Speaking as a representative of the International Military Club Executives Association (IMCEA), the manager of Navy clubs at the Naval Education and Training Center, Newport, Rhode Island, Mr. Donald Booth, testified that the IMCEA [63]:

- Believed that package store profits were not a disincentive to effective club management and should be returned to the clubs;

- Believed that a central DOD club agency would only create an additional management layer and would not improve club operational efficiency;
- Believed that additional cutbacks in appropriated fund support for the military clubs should not be enacted;
- Believed that the club patron survey conducted by GAO showed that military clubs were effectively meeting the needs of most service personnel.

Mr. Booth also put the IMCEA on record as supporting a number of other initiatives in the club management area. These included [64]:

- Reducing the amount of regulations that govern DOD clubs (to emphasize this point the NAF panel was presented with three stacks of paper containing Army, Air Force, and Navy club instructions) [65];
- Establishing a central DOD office for the recruitment and referral of civilian club managers;
- Establishing uniform classification and pay scales for civilian club managers;
- Reducing the number of club audits, inspections, and management assists.

It should be noted that no claim has been made that the IMCEA positions represented the predominant views of most Navy club managers; however, as of January 1979, 24 percent of Navy club managers were also dues paying IMCEA members [66]. Further, interviews conducted with Navy club managers surfaced many of the same positions that were championed by the IMCEA.

If professional club management organizations, such as the IMCEA are able to articulate the "unfiltered" viewpoints of military club managers, then IMCEA positions should be kept in mind and sought out by DOD club officials when considering alterations to the existing military club system.

Since Navy clubs fall directly within the line authority of local base commanders, it follows that the CO's personal assessment of club operations is taken seriously by the club managers. In an operational sense, however, the technical guidance and financial controls promulgated by NMPC-Code 65 or by the Comptroller of the Navy (NAVCOMPT), may be more important. All Navy clubs are required to:

- Utilize standard accounting systems and forms;
- Input, on daily basis, transaction summaries, all cash receipts, and all expenditure documents into the Mess Central Accounting System (MCAS). Figure 11 shows how cash receipts are handled centrally by MCAS.
- Be audited on a periodic basis by local audit boards and by representatives of the Naval Audit Service (NAVAUDSVC). In this regard NAVAUDSVC has prepared standardized audit programs especially designed for use in club audits;
- Fiscally separate each club and package store (e.g., enlisted club sales cannot be merged with those of the package store or officers' club);
- Reconcile locally maintained accounting statements with mechanized listing prepared by MCAS from daily transaction inputs (see Figures 11 and 12 for examples of MCAS financial listings);
- Utilize centrally issued pre-numbered checks for all disbursement other than petty cash transactions;
- Provide prescribed employee fringe benefits (i.e., health care plans, retirement benefits, sick leave);
- Conform to federal job wage and classification guidelines for civilian employees.

In effect, under the Navy's present club management system, club financial accounting and reporting functions are centrally managed. However, operational decisions (e.g., hours of

EXAMPLE OF MCAS-AUTOMATED CLUB FINANCIAL STATEMENT BALANCE SHEET

ACTIVITY 0112		BALANCE SHEET		RUN DATE 031379	
CORG-NAPUSCOL-RENTNEY-CA		AS OF 27-FEB-1979		LIABILITIES AND NET WORTH	
ASSETS		CURRENT LIABILITIES ***		UNAUDITED	
*** CASH ***		2111 ACCOUNTS PAYABLE - OTHER		50,316.59	
1111 CONCENTRATED BANK ACCOUNT	245,351.76	2112 ACCOUNTS PAYABLE - OTHER		5,720.65	
1110 RESTRICTED CASH - LOC FURNED PROJ	245,351.76	2130 CUSTOMER DEPOSITS		145.10	
CHECKBOOK BALANCE SUB-TOTAL		2141 GRATUITIES - DUE EMPLOYEES		1,110.05	
1113 DEPOSIT BANK ACCOUNT - LOCAL		2142 SINK CHARGES - DUE EMPLOYEES			
1143 IMPREST BANK ACCOUNT - PAYROLL		2101 ASSESSMENTS PAYABLE - SALES			
1144 IMP BANK ACCOUNT - FOR. CURRENCY	4,250.03	2162 ASSESSMENTS PAY - SLOT MACHINES			
1170 GRANCE FUNDS	50.00	2170 ZERO MACHINE INCOME SHARING PAY		2,007.44	
1100 PETTY CASH	249,651.76	2210 ACCRUED WAGES PAYABLE		2,007.44	
TOTAL CASH		2220 ACCRUED VACATION LEAVE PAYABLE		2,007.44	
*** ACCOUNTS RECEIVABLE ***		2310 FED WITHHOLDING TAXES PAY		2,007.44	
1210 ACCOUNTS REC - GENERAL	7,024.40	2320 STATE/TERM WITHHOLDING TAX PAY			
1220 ACCOUNTS REC - RETURNED CHECKS	23.03	2330 SOCIAL SECURITY TAXES PAYABLE		6.74	
1230 COMPLETED RATIOS		2340 PAYROLL DEDUCT - SAV BONUS PAY			
1240 OTHER RECEIVABLES	3,701.05	2360 RETIREMENT ANNUITY W/M		435.90	
TOTAL ACCOUNTS RECEIVABLE		2370 GROUP LIFE INSURANCE W/M		142.75	
*** INVENTORY ***		2380 GROUP COMPREHENSIVE MEDICAL W/M		600.60	
1313 CENTRAL STOREROOM - FOOD	46,190.87	2390 OTHER EMP BENEFITS & TAXES-PAY			
1314 CENTRAL STOREROOM - LIQUOR	1,402.77	TOTAL CURRENT LIABILITIES		81,532.39	
1315 CENTRAL STOREROOM - SUPPLIES		*** OTHER LIABILITIES ***			
1316 CLX STOREROOM - SUPPLIES & REP	38,073.79	2020 LONG TERM LOANS-PAY-TUFTERS			
1311 FOOD MESS/CAFETERIA	5,735.98	2050 LONG TERM RETIRE & SIV ALLOW PAY			
1312 BAR	4,317.12	2060 LONG TERM BONUSES PAYABLE			
1314 SODIUM MERCHANDISE		2090 OTHER LONG TERM LOANS PAY		9,400.00	
1319 OTHER RESALE		2720 UNPAID INCOME - ADV COLL			
1331 BIRCH		TOTAL OTHER LIABILITIES		9,400.00	
1334 CPS - ALL PRODUCTS		*** NET WORTH ***			
1361 CPS - DISTILLED SPIRIT PRODUCTS		3210 NET EARNINGS BEGIN PERIOD		343,220.12	
1362 CPS - WINE PRODUCTS		ADD NET PROFIT YEAR TO DATE		22,790.08	
1363 CPS - MALT BEVERAGE PRODUCTS		LESS NET LOSS YEAR TO DATE			
1364 CPS - SOFT DRINK PRODUCTS		ADD ADJ CLOSING YEAR TO DATE			
1365 CPS - OTHER PRODUCTS		LESS ADJ DEBIT YEAR TO DATE			
TOTAL INVENTORY		3230 GRANTS REC'D FROM TUFTERS			
1510 PREPAID EXPENSES	93,720.51	TOTAL NET WORTH END OF PERIOD		365,410.20	
1599 SUSPENSE	11,031.77	*TOTAL LIABILITIES & NET WORTH*		447,351.79	
TOTAL CURRENT ASSETS					
*** FIXED ASSETS ***					
161X FURNITURE, FIXTURES & EQUIP	80,372.18	FUND SOLVENCY INFORMATION			
1710 ACCUMULATED DEPRECIATION	40,823.49				
162X VEHICLES					
163X BUILDINGS	42,226.29				
1631 BUILDINGS - CONSTRUCT IN PROGRESS					
1730 ACCUMULATED DEPR - BUILDINGS	3,561.00				
164X BUILDING IMPROVEMENTS					
1641 BUILDING IMP - CONSTRUCT IN PROG	879.73				
1740 ACCUMULATED DEPR - IMPROVEMENTS	11,134.20				
FIXED ASSETS - NET					
1910 EARNINGS RECEIVABLE	447,351.79				
TOTAL ASSETS*					

Source: U.S. Navy Mess Consolidated Accounting Unit Printout.

Figure 11

EXAMPLE OF MCAS AUTOMATED CLUB FINANCIAL STATEMENT -- PERIOD SUMMARY

ACTIVITY 0112
COMO NAVPOSCOL MCNTREY CA

SUMMARY OPERATIONS STATEMENT
FOR THE PERIOD ENDING
27 FEB 1979

PAGE 2
RUN DATE 031379

	CURRENT MONTH	CH X OF SALES	YEAR TO DATE	YTD X OF SALES	TARGET X	YTD COMPARATIVE ANALYSIS TARGET AMOUNT	VARIANCE
OTHER INCOME							
0110 DUES					4.74	16,331.76	16,331.76 <---
0220 BONUS MERCHANDISE					.01	34.46	34.46 <---
0300 CASH DISCOUNTS EARNED					.00	206.73	206.73 <---
0500 GRS PROFIT DISTRIBUTION	7,396.79	10.64	50,887.09	14.77	14.35	49,443.20	1,443.89
0590 TRANS FROM OTHER ACTVS	17.91	.03	226.24	.07			
0610 CASH OVERAGES	241.84	.35	910.52	.26			
0670 INVENTORY OVERAGES	.83		2,160.58	.63			
0700 COMMISSIONS	61.25	.09	61.25	.02	.01	34.46	26.79
0990 MISCELLANEOUS OTHER INCOME	21.10	.03	21.10	.01			
TOTAL OTHER INCOME	7,739.72	11.14	54,266.76	15.76	19.17	66,050.61	15,102.27 <---
OTHER EXPENSE							
9130 SALLS ASSUPEMENTS	868.63	1.25	4,306.90	1.25	1.53	5,271.61	964.71
9430 BAD DEBT EXPENSE					.04	137.82	137.82
9610 CASH SHORTAGES	174.48	.25	872.94	.25			
9620 INVENTORY SHORTAGES	83.32	.12	568.94	.17			
9930 PRIOR FY EXP ADJUSTMENT			69.93-	.02-			
TOTAL OTHER EXPENSE	1,126.43	1.62	5,878.85	1.65	1.57	5,409.46	1,102.56
NET PROFIT/LOSS	3,844.43-	4.95-	22,790.06	6.62	1.50	5,165.65	19,597.94

NOTE: <--- INDICATES MANAGEMENT ATTENTION
MAY BE REQUIRED

Source: U.S. Navy Mess Consolidated Accounting Unit Printout.

Figure 12

operation, range, and prices of services provided, package store profit distribution ratio, membership criteria) which affect the financial status of the clubs, remain within the local line management hierarchy.

Two features of the current Navy club management system stand out.

First of all, local Navy club officials and line managers can structure club operations to match the tone and tempo of base operations. For example, at an overseas Naval station club hours and dress requirements can be temporarily modified when a large number of ships are in port. This is not to suggest that similar modifications could not be made if line management was not directly involved in club operations, but only to point out that the fact that a CO can unilaterally take actions to ensure that the clubs are flexible enough to accomplish their primary mission of "service to the Fleet"; even if profitability is reduced somewhat in the process.

A second feature of the present Navy club structure is that MCAS provides a number of services to local club management. For example, under MCAS, local club managers:

- Have been provided with numerous forms, manuals, training courses, management consulting services, and control procedures which have standardized and improved their operations;
- Have been relieved of handling investment decisions regarding club revenues;
- Have increased their control over cash handling through the use of pre-numbered NAVPERS controlled checks and vouchers;

- Have been furnished with mechanized financial statements which analyze their operations, point out potential areas of management problems (see Figure 12), and provide neat consistent audit trails of past operations.

The cost of these services is 1-1/4 percent of gross sales.

Club managers, bookkeepers, and purchasing personnel interviewed during the course of this research, stated that they were satisfied with MCAS. This was in contrast to:

- Complaints that some Air Force Club managers had voiced over overhead charges for the more elaborate Air Force central accounting and purchasing systems [Ref. 67].
- GAO's and the NAF panel's dissatisfaction with the Marine Corps almost totally decentralized club financial management system [Ref. 68].

Navy package store operations at the local level have been an important part of club operations under the present structure. At most Navy bases, consolidated package stores have been formed from several smaller outlets previously run by individual clubs. The 1972 NAF panel, in response to complaints from constituents, raised questions about the proliferation of small club-sponsored base package stores. Access to these small package stores was limited in some cases to personnel of particular military ranks. In other instances, only dues paying club members could use the package stores. As a result, the 1972 NAF panel directed the services to consolidate these small package stores into larger outlets open to all eligible personnel [Ref. 69].

As noted in Chapter II of this report, the 1972 NAF panel also recommended that the services separate the package stores

from the clubs and distribute a higher percentage of package store profits to base recreation activities vice the clubs. The Navy to date has complied with the first two provisions of the 1972 NAF panel recommendations, but not with the third portion dealing with package store profits.

As of the time of this writing, Navy COs were free to distribute package store profits between clubs and other MWR activities as they saw fit. For fiscal year (FY) 1978, only 36 percent of CONUS Navy bases and 51 percent of overseas Navy bases distributed any portion of package store profits to base recreation activities [70]. At the remaining activities COs directed that all package store profits go to the various clubs, usually on percentage basis proportional to the dollar value of package store purchases made by customers of applicable pay grades [71]. Recreational activities in the Navy have thus been dependent on appropriated funds, revenue generated from recreation user fees, and Navy exchange profits. Since 1975, system-wide Navy exchange profits (in constant 1967 dollars) have declined 24 percent [72], and appropriated funding levels have also been reduced. As a result, recreational user fees have in many cases been increased in order to maintain the scope of recreation programs [Ref. 73].

Since the Navy, unlike the other armed services branches, does not charge dues at most clubs, Navy club officials have argued in the past that the clubs needed the package store

profits to survive. Navy club officials have also argued that since the package stores evolved out of the club system, it was both reasonable and proper that package store profits should be plowed back into the clubs [74]. GAO and the NAF panels have been unimpressed with these arguments. The 1979 NAF panel's recommendation that all package store profits be turned over to recreational activities vice clubs beginning in FY 1982, presents a problem for Navy club managers.

Ignoring package store profits and dues for the moment, club revenue is generated at Navy clubs principally by sales of individual drinks and food. Discussions with club managers indicated that, in general, bar sales are far more profitable than food sales. This fact goes particularly hard on officers' clubs where the ratio of food sales to bar sales is usually much higher than at enlisted clubs. Officers' clubs also tend to shun the "fast food" menus that are popular and more profitable [75] at the enlisted clubs. In the past, package store profits allowed food services at officers' and enlisted clubs to operate at a loss. With the removal of the contribution from the package store profit, price increases for food, changes in the type of food service offered, higher liquor prices, implementation of dues, or some combination of these initiatives, seems inevitable if the clubs are to remain solvent.

Personnel management is important to any organization and the Navy clubs are no exception. As noted earlier, Navy club

managers are primarily civilians. Although the other armed service branches have argued that a cadre of military club managers is needed for effective "command control" and for assignment to forward based overseas clubs, the Navy club system appears to operate at least as well with civilian managers as the other services do with a mix of civilian and military managers.

As IMCEA representatives noted in their Congressional testimony [Ref. 76], decentralized management of club personnel has its drawbacks. For one thing, decentralized management makes it very hard to implement a consistent career development program for club managers. An ambitious person hired at an entry level club management position probably does not want to stay at that level indefinitely; particularly, if the individual demonstrates a talent for effective club management. Since NMPC-Code 65 does not exercise control over the hiring, firing, promoting and reassigning of civilian club management personnel, NMPC-Code 65 cannot ensure that competent managers have advancement opportunities commensurate with their talent and experience.

For example, a superior club manager at a small base may not be aware of and consequently not considered for a higher paying club position vacancy at another base. Faced with little prospect for advancement, the manager may be lured away from the Navy club system to a civilian sector job with better career potential. NMPC-Code 65 did experiment with a management

Intern program and a job referral service a few years ago. However, the program was discontinued because COs were not obliged to employ NMPC-Code 65 recommended job applicants [Ref. 77].

Another personnel problem within the Navy club management system is that civilian employees are funded and governed by two separate systems:

- Government Service (GS) employees--paid with appropriated funds; and
- Uniformed Annual (UA) employees--paid with nonappropriated funds.

While the salary scales for comparable employees of each system are the same, other benefits differ. For example:

- GS employees have a pension plan apart from social security for which they make contributions from their salaries. UA employees are excluded from the GS plan and consequently pay social security tax;
- Prior military service counts toward retirement and longevity pay scales in the GS system. This is not true with the UA system;
- Accrued longevity and retirement points earned in one system cannot be transferred to the other system. Thus, if an employee's position is shifted from GS to UA or vice versa, the employee could stand to lose longevity and pension benefits.

Should the Congress lower the amount of appropriated funds provided to the military clubs, some GS employees will have to shift to UA positions. This will impose some hardships on the clubs since UA employees are paid with nonappropriated funds.

To an extent, this dual personnel system has already had an impact on the clubs. Reductions in the overall number of

civilian personnel allowed at bases have often forced COs to choose between having GS club managers or some other essential personnel. Since the GS club managers, unlike other civilians, can be shifted to a UA position, local commanders have in some cases elected to change GS club positions to UA billets rather than dismiss a non-club GS civilian.

D. OVERSEAS NAVY CLUBS

Overseas Navy clubs are run essentially the same as the CONUS-based clubs. However, the restrictions on foreign national employees noted earlier in this report and the presence of slot machines are two differences. Unlike the Army and Air Force overseas clubs, which are run separately from CONUS clubs, Navy clubs worldwide come under one management system.

Slot machines, which were dropped by Army and Air Force overseas clubs in a "knee-jerk" reaction to the 1968-69 Vietnam club scandals, have been retained by some Navy (and Marine Corps) overseas clubs [78]. While the Navy's seven percent profit margin on slot machines might not be sufficient to sustain a Las Vegas gambling casino, it has produced a significant amount of revenue for overseas clubs (\$3.4 million in the first nine months of FY 79) [Ref. 79]. Twenty-five percent of all slot machine profits are currently retained by the Navy Central Club Fund to benefit all Navy clubs. Each overseas activity CO is free to use the remainder for local club/recreation needs.

Regarding the moral issue of gambling, the official Navy position [Ref. 80] is that with such a controlled low slot machine profit margin, on-base slot machines are more recreational than other gambling devices. Also, language barriers and the sometimes questionable reputation of off-base commercially run overseas gambling houses tends to result in a barrage of petty disputes between U.S. service members and local foreign nationals. By having slot machines at the clubs, local commanders can reduce the potential for adverse public relations with the host country, provide an additional source of on-base recreation, and increase financial support for club and other MWR activities [81]. Though on-base slot machines inevitably offers unscrupulous club employees the temptation to steal, the Navy, through a very aggressive and effective audit program, has been able to avoid the scandals that ended Air Force and Army slot machine operations [82].

Barring base closure or a reduction in assigned personnel, CONUS club managers can develop an estimate of their patron bases which allows them to systematically organize their club programs. At some overseas Navy bases, which service varying numbers of deployed fleet units (i.e., ships, air squadrons), it is difficult to tell how many people will be using the club. Political and military considerations may translate overnight into full or empty docks and hangar bays. Club managers overseas depend heavily on the "fleet" sailors' business, yet they have no accurate way to predict when or how many "fleet"

sailors will be available to use the clubs. This uncertainty, along with the inflexible hiring rules on foreign national employees noted earlier, can cause overseas clubs to lose money periodically. In such instances where overseas clubs incur losses due to cyclical changes, NMPC-Code 65 can and does make loans/grants from the Central Club Fund on a case-by-case basis [Ref. 83].

E. SPECIAL NAVY CLUB SYSTEM REQUIREMENTS

There are Naval service traditions and peculiarities that have fostered unique Navy club system features and constraints. The relationship between dues and transient "fleet" sailors has already been discussed. Additionally, while the other services have developed a tradition of dues at senior enlisted and officers' clubs, the Navy has gone the opposite way. To change course now or in the future could easily be perceived by Navy officers and petty officers as a "breach of faith" and an "erosion of benefits"; notwithstanding the fact that comparably paid civilians and military personnel of other armed service branches are assessed club dues. Consequently, the possibility exists that a large scale exodus from officer and senior enlisted Navy clubs could occur if and when club dues are introduced Navy-wide. In this regard, it is significant that the record of Navy officer clubs charging membership dues has not been impressive, which suggests that dues are not a "cure-all" for the Navy clubs' financial problems [84].

The somewhat unique status of Navy Chief, Senior Chief, and Master Chief Petty Officers, enlisted pay grades E-7 through E-9, also affects the Navy club system and consequently merits some discussion. Chief Petty Officers (CPOs) clubs are not open to Navy First Class Petty Officers (pay grade E-6) or to pay grade E-6 service members of other armed services. Army, Air Force and Marine Corps senior enlisted clubs all admit E-6 personnel. Consequently, a Navy base CO, in addition to providing officer and enlisted clubs, must also provide two senior enlisted clubs, one club for CPOs and one club for First Class Petty Officers.

At large populous bases, this additional club presents no significant problems. However, at locations where the number of CPOs is small, CPOs expect a separate club and often do not support a consolidated senior enlisted or enlisted club. In some locations, such as remote overseas stations, consolidation of CPO clubs with officer and/or enlisted clubs has been successfully accomplished, but only as the final alternative to closure [85]. At the Naval Postgraduate School (NPS) where student officers predominate, the 23 CPOs attached to the command have rarely patronized the NPS enlisted club since their separate CPO club was closed for economic reasons. Rather than allow the Chiefs to utilize the Officers Club, NPS plans to spend club funds to furnish a "CPO annex" to the Officers' club. The option of allowing CPOs to use the NPS Officer club has not been elected even though the NPS Officers' club does

extend membership to civilian faculty and staff members (GS-11 (GS-11 and above) [86].

F. CHAPTER SUMMARY

The present Navy club system has:

- Attempted to combine elements of centralized and decentralized management structures;
- Given wide club management latitude to local commanders and their civilian club managers;
- Centralized accounting and financial functions without adding an additional layer of management authority;
- Used package store and slot machine profits to subsidize other club operations;
- Has recognized that unique service traditions impact on the structure and operations of the Navy clubs;
- Will be faced with a revenue crunch if and when package store profits/appropriated funds are reduced or withdrawn from the Navy clubs; and
- Has fewer problems than the other armed services club systems.

V. CHALLENGES FACING THE NAVY CLUB SYSTEM

"What does the future hold for military club systems?
A thorny path, if one is to read the indicators."

(Bert L. Shine--from Officers
Clubs at the Crossroads)

The 1980s could well be a critical time period for the Navy club system. Problems noted in previous chapters of this report could be further exacerbated in the upcoming decade, given certain assumptions. Consequently, in forecasting the future Navy club environment, any and all premises should be clearly spelled out. While some of these assumptions may appear obvious or trivial to the reader, system changes which do not take them into account could subsequently produce some undesired results.

A. NAVY CLUB ENVIRONMENT ASSUMPTIONS FOR THE 1980s

The following assumptions, relevant to future club operations are based on past events, research into the Navy club area, opinions expressed by cognizant club officials, and in some cases, the author's own observations:

1. Navy club management will continue to come under close scrutiny from the Congress;
2. The level of appropriated fund support provided to the Navy clubs will not increase (in constant dollars);
3. Navy Exchange profits will not increase (in constant dollars) during the next two years;
4. The all-volunteer armed forces concept will remain intact;

5. Military pay scales will be competitive with similar jobs in the civilian sector;
6. Competition from commercial food and entertainment outlets will continue to attract a segment of the Navy club patron market; and
7. There will be no U.S. military involvement in a protracted war.

Reviewing DOD responsiveness (or non-responsiveness to 1972 and 1977 House Armed Services Committee (HASC) Nonappropriated Funds panel (NAF panel) club recommendations, one could infer that some DOD officials did not take seriously the NAP panel's promise of periodic follow-up on their recommendations. Assumption number one supposes that DOD officials no longer hold this view.

Regarding assumptions numbers two and three, past trends just do not support an optimistic view towards increases in exchange [Ref. 87] and appropriated fund contributions to DOD Morale, Welfare, and Recreation (MWR) programs. A more prudent management projection would be that, at best, they might remain at a constant level. As for the remaining four assumptions, while time and events could easily affect their validity, at the present time they represent the current situation. In any case, they are external to the decision process of Navy club officials.

B. DEVELOPING NEW CLUB REVENUE SOURCES TO REPLACE PACKAGE STORE PROFITS

The Congressional mandate that all military package store profits be diverted to recreational activities vice military

clubs no later than the beginning of fiscal year (FY) 1982, has caused serious concern among Navy club officials. Some substitute must be found to compensate for the loss to the clubs of this large subsidy (\$10 million in FY 1978) [88]. Possible ways to compensate for the loss of package store contributions include:

- Lowering operation costs;
- Increasing the prices of bar drinks;
- Increasing the prices of food;
- Introducing club membership fees (i.e., dues);
- Cutting back on services that are either only marginally profitable or unprofitable; and
- Increasing the club utilization rates for eligible personnel.

There are some tradeoffs and organizational constraints involved with each of the above listed options.

Opportunities to achieve lower operational costs may be realized through the elimination of redundant or unneeded personnel, increased efficiency in food and drink preparation, tighter controls over inventories and cash handling, and better procurement and receipt procedures. The overall effect of these initiatives, however, could be constrained by rising labor costs, elimination of some appropriated fund supported billets, and tough competition from off-base clubs and restaurants.

Similarly, revenue gains produced by food and drink price hikes over and above normal inflationary increases could well

be offset by a number of factors. One obvious constraint is the price elasticity of the various goods and services offered by the clubs. It is conjecture at this point as to whether club patrons will quietly accept sharp food and drink price increases or take their business, in protest, to commercial restaurants. The club manager must determine the combination of food and drink price increases which will result in an overall club revenue increase, while maintaining a level of club patron utilization that can be used to justify continued club operations. This is not an easy decision to arrive at.

The question of whether or not to charge club dues presents another challenge to Navy club officials. While some club managers feel that dues offer a panacea for their club revenue problems, the traditional Navy position has been that dues should only be employed as a last resort. Navy headquarters club officials point out that the overall profit record of the few Navy clubs that have employed dues has not been impressive [Ref. 89]. They also stated that to date no Navy club that has implemented dues has ever reverted back to a non-membership basis. The shift to dues, in practice, appears to be a non-reversible process [90]. There is another less obvious drawback to dues. The introduction of dues tends to shrink the club patron base and in doing so clubs lose part of their *raison d'être* [91]. In written testimony before the 1979 NAF panel, Navy officials stressed the point that their clubs were, with the exception of 21 officer clubs, non-membership

clubs--open to all eligible military personnel. The implementation of club dues on a large scale would weaken the Navy's argument for continued Congressional support of Navy clubs [Ref. 91].

Cutting back on marginally profitable or unprofitable club services (e.g., a poorly patronized evening meal) could, in some cases, improve club finances, but such moves may place the club manager in conflict with local line officials, since profitability is not the sole objective of military clubs.

The last suggested option, which is to increase the club utilization rate, is only constrained by the imagination of club officials. This option also obviates or lessens the need for some or all of the other initiatives mentioned. The trouble is that it is easier said than done!

Implementation efforts for any of the options noted above may also be aided or further constrained by the overall Navy club structure. For example, under the present decentralized club structure, food and liquor price policies are established by local management. Although Navy Military Personnel Command --Code 65 (NMPC-Code 65) management assistance teams, Naval Audit Service (NAVAUDSVC) personnel, and local command audit boards, can suggest appropriate prices, final adoption of club prices rests with the local command. Under a centralized club management system, these "suggestions" could be made binding. Likewise, audit recommendations on operational procedures and marginal club services could be given more "teeth" under a centralized club management system.

As for dues, the centralization versus decentralization issue becomes even more important. Presently, NMPC-Code 65 only has authority to establish an acceptable range of monthly club dues and to initially approve/disapprove local club requests to implement dues. With the impending loss of package store profits, it is not unreasonable to expect a quantum leap in the number of Navy clubs requesting authority to charge dues. In the past, NMPC-Code 65 has approved all such requests in spite of the Navy's stated policy discouraging dues [92]. A major shift in the number of Navy clubs asking to charge club dues would amount to having local commanders dictating overall club policy to Navy headquarters officials or vice versa.

C. ENSURING THAT CLUB ASSETS ARE FAIRLY
DISTRIBUTED ON A SYSTEM-WIDE BASIS

A persistent criticism of the Navy club system and those of the other armed services is that they are structured in ways that do not ensure that the recreational and entertainment needs of service members at remote/overseas bases are adequately met. For example, the Navy club system does not impose special surcharges on the more affluent clubs in order to subsidize vital but financially limited clubs overseas and at remote U.S. bases. To a limited extent, it works the other way around. Twenty-five percent of profits generated by overseas slot machines are diverted to the Navy Central Club Fund. While some of this money eventually winds up supporting various

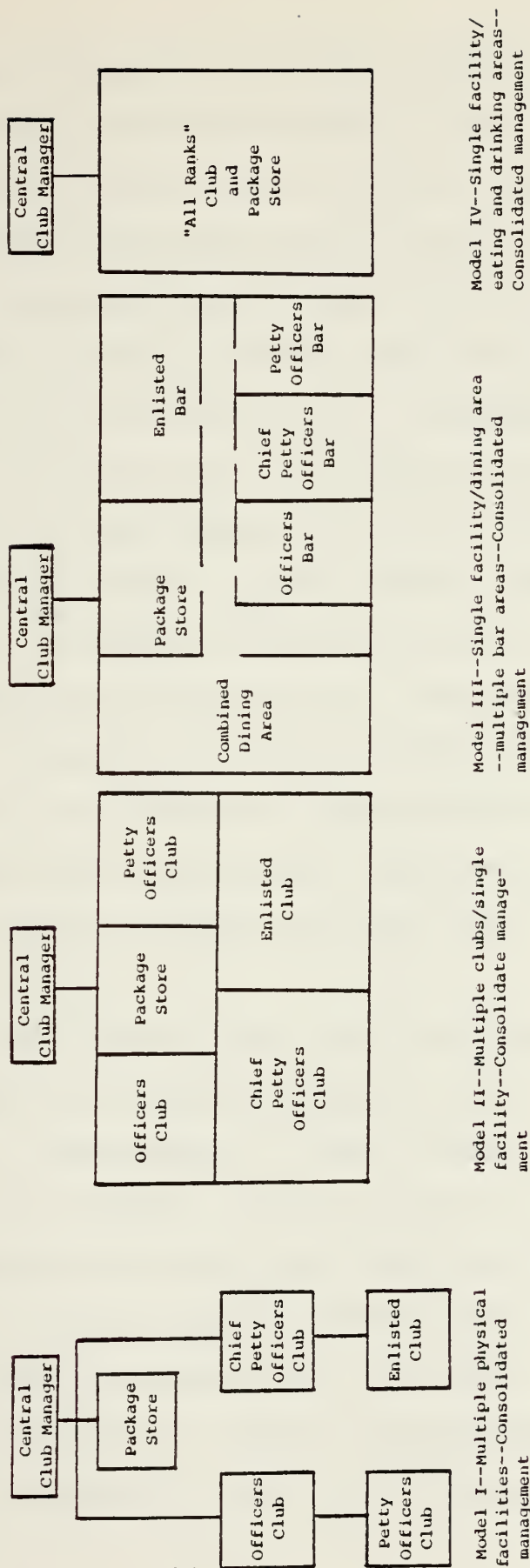
overseas clubs, this money is also used to support Navy clubs located in the continental United States (CONUS) [93].

Some potential options which would serve to ensure that Navy personnel of all ranks have access to "acceptable" club services worldwide include:

1. Shifting to "consolidated" clubs at bases where one or more rank-segregated clubs are rated unsatisfactory or uneconomical;
2. Defining and applying different self-sufficiency criteria to "essential" and "non-essential" Navy clubs;
3. Establishing system surcharges and subsidies to better balance club services offered at affluent and financially weak Navy clubs;
4. Increasing club oversight authority at NMPC-Code 65;
5. Redistributing available military and appropriated fund supported club billets so as to favor financially weak, "essential" Navy clubs; and
6. Ensuring that all new club construction and major renovation projects are (a) based on genuine need rather than the availability of funds, and (b) not overlooking opportunities to incorporate rank-consolidated features into the club design layout.

Increasing the use of consolidated clubs might provoke some opposition from some Navy personnel; the amount of opposition aroused being directly related to the type of club consolidation attempted. Figure 13 graphically depicts the four basic types of Navy consolidated club models that are normally employed [94]. Note that the models range from centrally managed rank-segregated clubs in separate physical buildings (Model I) to consolidated "all ranks" clubs (Model IV) under a single roof. Models II and III incorporate some

TYPES OF CONSOLIDATED CLUB OPERATIONS CURRENTLY UTILIZED AT U.S. NAVAL BASES



SOURCE: Based on interviews with NMPC-Code 65 officials

Figure 13

of the cost-effective features of the "all ranks" model, while still retaining some characteristics of the traditional rank-segregated clubs. At the time of this writing, most large Naval activities were operating some version of Model I.

Under Model I, separate physical club facilities were maintained as before; however, a centralized local club management hierarchy was substituted for the independent management that formerly existed at each individual club. This centralization provided opportunities for cost reduction and more effective club operations. Administrative functions such as purchasing, accounting, and payroll processing were particularly amenable to centralization. Individual club managers may have objected to the loss of their autonomy, but the club patron was probably not aware of the organizational changes that were taking place. As noted in the GAO club report, this was not the case with the other club consolidation models.

Model IV, the "all ranks" clubs, are an anathema to many senior Naval officers and enlisted members as well as to many military retirees. Some members of these groups, in the manner of the anonymous Navy officer, quoted earlier in chapter two, would rather close the clubs than open them up to "all ranks." Thus, a weakness of the "all ranks" clubs is that they are "unacceptable" to many potential users. As such, their use to date has been restricted to remote overseas bases, where they are the only economically feasible club set-up and where

military personnel have few, if any, other entertainment options.

The hybrid clubs (Models II and III) also meet with some resistance from service personnel favoring rank-segregated clubs. The intensity of the resistance, however, is abated somewhat by the inclusion of rank-segregated bar or dining areas within the single physical facility. Models II and III have been well received by personnel at new naval bases (e.g., U.S. Naval Submarine Base, Bangor, Washington) where they represented "additions" to the station's MWR assets rather than "replacements" for existing rank-segregated clubs. From an operational standpoint, these "single building clubs" can eliminate redundant food preparation, utility, personnel, and administrative costs.

In determining which form of consolidated club best suits the needs of personnel at a particular base, Navy club officials and/or local commanders have to carefully weigh the potential tradeoffs involved with each club option. There is little point in constructing an "all ranks" club in an urban area replete with other rank-segregated military clubs, or in building a chief petty officer's (CPO) club at a base where there are insignificant numbers of CPOs to support it. Military tradition and good business sense are not mutually exclusive by definition. In club-related situations where they appear to be in conflict, some careful and unbiased analysis should be undertaken to better determine how the club

should be structured. Whether or not the Navy opts for a centralized or decentralized club management system, they should develop and maintain checks to ensure that future club construction/renovation projects are consistent with the personnel structure of the base in question.

Imposing a surcharge on small, remote, overseas or CONUS-based Navy clubs to subsidize large, profitable, urban Navy clubs would be inconsistent with DOD MWR objectives. Happily, neither the Navy nor any of the other services have imposed a regressive surcharge of this type. The Navy, for example, allows each club to retain its cumulative earnings (save for the 1-1/4 percent surcharge to cover expenses of the Mess Central Accounting System--MCAS). While this approach has not aroused resistance from club managers, as pointed out in Chapter III, it tends to perpetuate rich/poor clubs. Further, the level of club service that an individual service member receives becomes a function of chance under this system. The sailors assigned to a remote base, where the club is a necessity, usually settle for a "shoestring" club operation while their counterparts at more ideal locations receive a much greater range of club services [95]. The system goal of providing all Navy personnel with a reasonable level of club services is not really achieved under the present Navy club system.

Any initiative to redistribute the system-wide wealth of the Navy club system should be preceded by some determination

of what clubs fall into "essential" and "non-essential" categories. Subsidizing vital overseas and isolated CONUS clubs with a percentage of profits from large, ideally located Navy clubs would seem to foster DOD;s stated MWR goals.

For example, self-generated revenues at small, isolated Navy clubs could be augmented by subsidies derived from surcharges on revenue from the more affluent Navy clubs. Re-allocation of system resources in this manner could upgrade services at isolated clubs to an acceptable level while having little or no negative impact on the financial position of the larger clubs.

Reallocation of limited resources often breeds resentment from those who become the net donors. Given the globe-trotting nature of military personnel, however, it is not likely that a reallocation of a small portion of club revenues would upset military club patrons. Over the course of an individual's military career, he will be assigned to many varied geographical locations; thus, the cumulative benefits/penalties of club asset reallocations will tend to cancel each other out.

The real problem, then, becomes one of defining "essential" and "non-essential" clubs. Since local commanders probably have a parochial bias toward their own clubs, it would not seem feasible to expect them to classify any or all of their clubs as "non-essential." Officials at the Navy headquarters level would necessarily have to evaluate all Navy clubs and determine each club's degree of essentiality, based on some

specified criteria. The criteria selected should be in consonance with DOD and Department of the Navy (DON) MWR objectives.

Figure 14 outlines one possible method of determining an "essentiality" rating for each club. Under the system presented in Figure 14, overseas clubs, and to a lesser degree, geographically remote Navy clubs within CONUS, would be more "essential" than their counterparts in close proximity to commercial restaurants and clubs (i.e., urban CONUS clubs. Note that in Figure 14 the range of potential numerical ratings varies for each club "essentiality" factor. The purpose of weighting each factor differently is to take into account their relative importance. For example, the author rated "location" as being twice as important as "ranks of members." A different rater might have an entirely different hierarchy of club "essentiality" factors.

Club essentiality ratings (CERs) could be useful in determining possible surcharges/subsidies, assigning appropriated fund supported club billets, and in evaluating the financial performance of each club. Clubs with low CERs which consistently lose money may need to be dropped from the system, while a losing club with a high CER should be subsidized and kept open. The author's proposed club rating scheme is admittedly simplistic in that it only considers three factors and ignores retirees and reservists, peculiar local conditions, and CONUS-based military dependents. The point is that based on some

AUTHOR'S PROPOSED CRITERIA FOR
"CLUB ESSENTIALITY" RATINGS (CER)

Club "essentiality" factors in order of importance		Rating Scale	
Factor	Criteria Applied	Most Essential 20	Least Essential 0
1. Location	Isolated and/or overseas based clubs are more essential than CONUS based urban clubs	Small overseas club--no dependents	Small remote overseas club CONUS club Large remote urban CONUS club
2. Ranks of Members	Junior enlisted and ranks clubs are more essential than officers, senior enlisted clubs	10 Junior enlisted club	All ranks/ Officer/ CPD club
3. Cost of Membership	Clubs with no dues are more essential than clubs which charge dues	3 Club without dues	0 Clubs charging maximum allowable dues

Club essentiality rating (CER) = location factor (LF) + membership rank factor (MRF) + membership cost factor (MCF)

Note: Ratio of one club (CER) to that of another club does not represent the relative essentiality of the two clubs.

Figure 14

set of criteria, club CERs could be developed and used to allocate Navy club system resources in a way that ensures a reasonable level of club services worldwide.

As an alternative to establishing CERs and redistributing club assets, selected overseas and geographically isolated CONUS clubs could be relieved of part or all of the burden of paying central fund assessments on club sales (1-1/4 percent) and slot machine profits (25 percent). This method has the advantage of avoiding arbitrary club rankings. A potential drawback would be that the existing central fund assessment rate might have to be increased at urban CONUS clubs to offset the loss of the overseas/remote area club assessments.

D. CLUB COMPETITION FROM COMMERCIAL/NAVY EXCHANGE FOOD AND DRINK OUTLETS

In 1975, NMPC-Code 65 and the Navy Resale and Services Support Office (NAVRESSO) jointly conducted an extensive patron attitude survey of the leisure time eating and drinking (LTEAD) activities of Naval personnel [96]. The LTEAD survey showed, among other things, that Navy club patronage was being siphoned off by Navy Exchange (NEX) food outlets (e.g., NEX snack bars, cafeterias, hot dog wagons, mobile canteens, golf course and bowling alley snack bars and vending machines) and by off-base commercial food outlets. For example, the survey noted that for the noon meal, a higher percentage of both officers and enlisted respondents used the NEX cafeteria/snack bars than the clubs. Off-base restaurants also took a

significant number of noon meal patrons away from the clubs [Ref. 97]. For the more expensive evening meal, respondents, both officer and enlisted, overwhelmingly listed commercial restaurants rather than military clubs as their usual dining-out choice.

The complete LTEAD survey was over 130 pages long and its full implications cannot be adequately summarized here. However, one passage related to perceptions of military clubs was germane and is quoted below:

Only the CPOs and the more senior married officers look upon their clubs as a career incentive to any significant degree...

In the final analysis, none of the patron groups consider their club as an important part of their social life. This is believed to be a major change from years past when the Navyman's club often served as the "hub" of his social activity [98].

In vying for a larger share of the military club patron market, military clubs can in no way restrict the activities of commercial entertainment outlets. For example, commercial clubs can admit both officers and enlisted personnel. On base, competition from NEX food outlets is also difficult for clubs to eliminate because NEX profits also subsidize the base recreation fund. Consequently, better salesmanship appears to be the only plausible way of increasing Navy club patronage.

Until recently, Navy and other military clubs had some distinct competitive advantages over nearby commercial restaurants. The edge was so significant that some managers may not even have considered the off-base restaurants as competition.

Reductions in appropriated fund club support, inflation, federal minimum wage laws, changes in military personnel life styles, and finally, the loss of package store profits have all but eliminated the significant cost advantage that the clubs once enjoyed. Club managers are going to have to sell the clubs to service members and not just rely on walk-in traffic. Innovative menus and club events will have to be good enough to convince married personnel to drive back to the base for an evening meal out, since with an increasing shortage of on-base military housing most military couples live off-base [99]. A lot hinges on the professional Navy club manager.

E. IMPROVING SYSTEM CONTROL OVER CLUB MANAGEMENT PERSONNEL

In the preceding chapter, shortcomings in the management of civilian club managers were noted. In the 1980s the Navy will have an even greater need to ensure that clubs are run by competent managers. In this regard, some type of centralized personnel management system might be preferable to the totally decentralized personnel system now in operation.

For example, a system in which club personnel management authority is shared by NMPC-Code 65 and local commanders could be implemented. Personnel management functions such as recruitment of club managers, club management career development programs, and inter-base club manager transfers/promotions, could be handled by NMPC-Code 65. The local commander could still retain the authority to evaluate and, if appropriate,

even dismiss the club manager. Such a system would in all probability be met with some reluctance from local commanders desirous of maintaining total control over their club managers. Their feelings could be assuaged somewhat by keeping the club managers within the local commander's direct chain of command [Ref. 100].

Another potential option for improving career opportunities for club managers would be to consider consolidating the local club manager/package store organization with the local recreational services hierarchy. As noted earlier, the Naval Air Station, Moffett Field, California, as well as a number of other Navy activities, has initiated a "Recreational Services" organization of this type.

Since technical guidance over both Navy recreational and club programs falls under NMPC-Code 65 cognizance, both fields use the same accounting and personnel procedures, and both fields are subsets of the larger MWR area; it would seem natural that managers of Navy clubs and recreational activities could shift from one sub-specialty to another. Heading a local "recreational services" division would be a senior grade civilian MWR professional who could tie together all of the local MWR elements (e.g., clubs, golf courses, child care facilities, bowling alleys, and ticket services). In this way, a more cohesive command MWR program could be presented to the local commander and internal power struggles for limited MWR resources could be replaced by a systematic allocation method.

Positive byproducts of such an organizational structure would be elimination of some redundant jobs (e.g., purchasing, accounting, and payroll) and establishment of a broader range of local MWR jobs.

The higher graded MWR jobs resulting from such a reorganization would translate into more advancement potential for qualified club personnel. In this regard, in 1979 a professional organization of military recreation managers, the International Military Recreation Association, has been formed under the auspices of the International Military Club executive Association (IMCEA) [Ref. 101].

F. ENSURING LOCAL COMPLIANCE WITH CONGRESSIONAL, DOD AND DON GUIDELINES

As Figure 8 points out, there are quite a few echelons between the DOD organizational levels where MWR policies are formulated and the local base level where these policies are put into operation. Both Congress and GAO have decried the lack of active DOD and DON involvement in club management. GAO has gone so far as to advocate a central DOD club management agency. The NAF panel in its 1979 club report did not insist on a central club agency but instead called on the services to provide more direct leadership at their individual headquarters level.

Though all four branches of the armed services have had flag level officers (i.e., generals and admirals) testify before NAF panels, their day-to-day club headquarters operations

are run by field grade officers (i.e., colonels and captains). A question could be raised that if flag officers are required to testify about MWR policies and programs before Congress, why are they not required to run the MWR headquarters operation on a normal basis like the military exchange systems?

While not questioning the professional competence of the present services' MWR heads, it is tough to imagine how a field grade officer can effectively manage organizations (i.e., clubs) that fall under the direct control of more senior military officials. In 1972, a DON MWR study group recommended the establishment of the flag level position of Assistant Deputy Chief of Naval Operations for Leisure Time Activities to coordinate all Navy MWR programs [102]. The recommendation was never implemented. In light of the importance of MWR activities to the morale and effectiveness of Naval personnel, a fresh evaluation of the merits of having a Navy flag officer head up NMPC-Code 65 would seem appropriate.

Presently, NMPC-Code 65 functions primarily in a technical capacity, which is consistent with the Navy's philosophy of decentralized line management control over MWR activities. Assuming that this philosophy remains constant, there are still some steps which could be taken to strengthen the DON headquarters' role in club management. They include:

- Upgrading the NMPC-Code 65 director's job to a flag rank position;
- Strengthening the audit capability of NMPC-Code 65;

- Involving NMPC-Code 65 in the Navy club personnel management process;
- Establishing CERs for each Navy club; and
- Granting NMPC-Code 65 authority to temporarily assume operational control over clubs experiencing financial difficulty.

The first four of these recommendations have already been discussed at length. The fifth step, which has already been implemented by the Army [103] represents a radical departure from past practices and in the author's opinion should only be taken after all available alternatives have been exhausted. While NMPC-Code 65 might have the personnel resources to operationally manage one or two clubs for a limited time period, there really is no feasible way for NMPC-Code 65 to staff more than two clubs without shifting to a centralized club management system. Taken as a group or individually, each of these actions would strengthen the role of Navy headquarters officials, while still allowing local commanders to exercise considerable latitude in operating their clubs. At the beginning of this chapter, the assumption was offered that Congressional and GAO scrutiny of military clubs would not dissipate in the years ahead. By strengthening the position of NMPC-Code 65, DON officials can be more responsive to the concerns of the Congress while improving their internal capability to monitor and improve Navy club operations.

G. CHAPTER SUMMARY

As the Navy club system moves into the 1980s, changes of one type or another appear to be in the offing. A variety of external pressures coupled with policy changes already announced (i.e., package store profit distribution and other 1979 NAF panel recommendations) make a "status quo" club policy untenable. In developing club change proposal, Navy club officials will have to consider more than just dollars and cents. Clubs are so intertwined with the Navy's command and rank structures that attempts to modify Navy clubs are sometimes viewed as unnecessary and undesirable infringements on basic command prerogatives.

A number of options have been mentioned as possible solutions to existing club problems. Most of the options noted have at least one potential drawback. No easy or risk-free solutions have been advanced. The problems that Navy club officials will have to successfully solve are: In what direction and how fast do we go? And while the past provides some clues, the course is to a large extent uncharted.

VI. ALTERING THE NAVY CLUB SYSTEM

A. PROBLEMS RELATED TO IMPLEMENTING CHANGE

Venerable traditional organizations are often very reluctant to implement significant organizational change proposals generated in-house or by outside observers. The history of military clubs suggests that any attempts to abruptly change the decentralized military club systems tends to exacerbate fears and opposition from a number of sources. For example:

- Local commanders and their superiors in the chain of command protest that their authority would be impinged;
- At the headquarters level, officials fear that proposed club changes would erase some club features that are unique to their particular service branch;
- Club managers become concerned that a new and unnecessary administrative level would result from changes in the club system; and
- The more traditional minded service members suspect that changes (particularly in regard to club consolidation) in the club system will serve to inhibit the maintenance of "good order and discipline."

The complete list of potential stumbling blocks to implementing a massive revamp of military clubs is endless.

Department of the Navy officials, along with their counterparts of the other services, have offered a plethora of reasons for not changing their respective club systems. Their arguments have basically stated that proposed club system changes would:

- Not necessarily result in a more profitable and effective system;

- Possibly be perceived by many service members as another in a series of "erosion of benefits" moves;
- Prove too inflexible for successful operation in many locations;
- Drive away some current club patrons; and
- Amount to an "overkill" reaction to some temporary system problems. Stated another way--things are not really that bad!

B. THE NEED FOR ALTERING THE NAVY CLUB SYSTEM STRUCTURE

Notwithstanding these and other arguments for maintaining the "status quo," external factors noted in previous chapters of this report suggest that, like it or not, some changes in the Navy (and other armed services) club systems are inevitable. The club's external environment has changed over the last few years and in order to avoid going the way of the dinosaurs, Navy clubs must keep pace with the times.

The issue of package store profits demonstrates how self-defeating a "do nothing" club policy can be. "Foot dragging" on the 1972 House Armed Services Committee's non-appropriated fund panel's (NAF panel) recommendation concerning package store profit distribution only prolonged the inevitable. Instead of an orderly phase-out of the Navy club's package store profit subsidy, the Navy found itself in 1980 faced with an edict to divert all package store profits to recreation activities by the end of FY 1982. Hopefully, having been through three NAF panel hearings since 1972, Navy officials will take prompt action on the club proposals put forth by

the 1979 NAF panel. If not, the centralized DOD club system advocated by GAO and so vehemently opposed by the armed services, may soon replace individual military club systems.

Once agreed that some changes will, in fact, be made to the club system, Navy officials should, based on research conducted as a part of this study, focus on:

- Determining what new changes will help make the Navy club system more responsive to the DOD MWR objectives noted in Chapter One of this study;
- Developing implementation methods and schedules which would serve to minimize organization resistance to club system alterations;
- Formulating contingency plans in the event of future cuts in appropriated fund support to the clubs;
- Improving strengths of the existing club system;
- Improving career recruitment and retention of civilian club management personnel;
- Increasing the interchange of club-related ideas and programs between all cognizant officials and organizations involved in military club management; and
- Last, but certainly not least, the Navy must keep in mind that the original reason for the clubs' existence was to provide a wholesome off-duty entertainment and recreational outlet for servicemen stationed at isolated bases. Any proposed changes to the Navy club system should not infringe on this objective.

C. PROPOSED ALTERATIONS TO THE PRESENT NAVY CLUB SYSTEM

Based on the author's research, there are at least two basic approaches that can be used in formulating club organizational changes. Proposals can be made to dismantle the existing club system and substitute a completely new (and hopefully better) system in its place. The alternative

approach would be to retain the basic structure of the existing club system while strengthening, modifying, or eliminating certain organizational elements. Both methods have their advantages and disadvantages. The choice of which to use hinges on one's initial perception of the worth of the existing system. GAO, in evaluating the entire DOD club system, saw little merit in the present decentralized DOD club system [Ref. 104]. The NAF panel, sufficiently impressed with certain features of existing individual club systems, pushed for strengthening headquarters club management within the existing club framework instead of creating a new consolidated DOD club organization.

In developing proposals for changing the Navy club system, the author took the position, based on thesis research, that the basic structure of the Navy club system was sound. Consequently, an abrupt shift from the present decentralized Navy club structure to a centralized DON headquarters organization model was ruled out. No inference has been made that a centralized DOD or DON club structure could not work. However, as noted in previous chapters of this report, rancor arising from dismantling the existing club system reduces the attractiveness of introducing a centralized military club system. Alterations to the present decentralized club system could accomplish the same ends with far less trauma.

The following specific recommendations which follow from conditions presented in previous chapters of this study are

offered as ways of improving management of the Navy clubs while retaining the basic decentralized structure of the club system.

1. Appoint a flag level officer (Rear Admiral) to head NMPC-Code 65 on a full-time basis;
2. Expand and strengthen the in-house audit capability of NMPC-Code 65;
3. Centralize certain club personnel management functions which require system-wide coordination (e.g., recruiting, career, development, job eligibility criteria);
4. Subsidize financially hard-pressed clubs at remote and/or overseas locations;
5. Authorize NMPC-Code 65 to exercise more control over club dues;
6. Develop closer ties with professional club management groups;
7. Allocate available appropriated fund club billets to the clubs which are most "essential";
8. Support efforts to develop and implement a simplified set of realistic DOD club regulations;
9. Require NMPC-Code 65 approval prior to commencement of new club construction/major renovation projects; and
10. Develop programs to eliminate any and all "myths" about Navy club operations that currently exist.

Recommendation Number 1:

By appointing a full-time flag-level head of NMPC-Code 65, the Navy would be making a clear statement to all concerned that central management of clubs and other recreation activities has increased in importance. Far from being just a psychological ploy, this change would give NMPC-Code 65 more "clout" in dealing with officials within the Navy command

hierarchy as well as with officials of external agencies/ organizations. The only impediment to implementing such a move would be that the NMPC-Code 65 flag officer billet would probably come at the expense of some other Navy program.

Recommendation Number 2:

The suggestion to expand the in-house capability of NMPC-Code 65 has already been accomplished to a limited extent. In 1979, NMPC-Code 65 added a Certified Public Accountant (CPA) to their headquarters staff and authorized an additional audit billet for their mobile club management assistance team. While GAO, the Naval Audit Service, and local command audit boards are all involved in club audits, none of these organizations specializes in the club management area. It is extremely important that NMPC-Code 65 improve its in-house audit capability in order to ensure that operations at the local level are being carried out properly.

Recommendation Number 3:

If the Navy club system is to prosper in the coming years, Navy club managers are going to have to be the best available. To ensure that well trained, competent club managers are staffing Navy clubs, NMPC-Code 65 needs to take a more active role in the personnel management area. While leaving the local commander with the authority to direct, and evaluate, his club manager's performance, NMPC-Code 65 should assume full recruitment, hiring and transfer authority. Commanders could also retain the authority to dismiss a manager when appropriate.

Sharing authority in this manner would preserve local control over day-to-day club operations, while allowing NMPC-Code 65 to perform functions which are best performed by a central agency.

Recommendation Number 4:

The proposal to subsidize financially hard pressed Navy clubs in some manner, recognizes the fact that even the best management cannot overcome some of the adverse environmental problems encountered at remote and overseas clubs. In contrast to private sector club organizations, the Navy should not allow hard pressed but "essential" clubs to die simply because they cannot turn a profit.

Recommendation Number 5:

The Navy needs to translate its stated opposition against club dues into a clear-cut policy. Once a dues policy is adopted, NMPC-Code 65 should be given broad authority in this area. Clubs should be forced to analyze the impact of proposed dues on personnel attached to area ships and air squadrons and on the club's present financial situation. Further, clubs should be required to explain why alternate means (e.g., price hikes, cutbacks in marginal services, club consolidation) could not be used to achieve financial solvency. Approval to charge club dues should only be granted for a specified time period. Clubs would then be forced to periodically reevaluate and document their continued need for dues.

Recommendation Number 6:

Professional club management organizations such as the International Military Club Executives Association (IMCEA) should be consulted when new club change proposals are still in the staffing stage. Comments on the merits of each proposed change should be solicited from the IMCEA. In this way potential problems and misconceptions related to club change proposals could be resolved prior to implementation. Since managers are going to be tasked to make the system work better, it would be a good idea to involve them as much as possible in formulating new policies. Close communication with the IMCEA and similar organizations is a painless yet effective way of accomplishing this objective.

Recommendation Number 7:

In recent years, Congress has reduced the number of appropriated funded club positions. At the time of this writing there are no effective mechanisms in place to ensure that any future reductions in appropriated fund club billets are equitably apportioned among the individual Navy clubs. It is therefore possible that "essential" clubs might lose some appropriated fund club billets while appropriated fund billets at large urban clubs remained intact. Such arbitrary personnel cuts do not adequately consider the special needs of some "essential" Navy clubs. Consequently, NMPC-Code 65 should be given authority to specify which clubs should/should not bear

the brunt of any Congressionally mandated reduction in the number of appropriated fund club billets.

Recommendation Number 8:

The Navy, Marine, and Army-Air Force Exchange systems have been operating for some time under unified DOD exchange regulations, and both the GAO and the NAF panel have recommended establishing a similar set of DOD club rules to replace existing service regulations. Since there appears to be little if any opposition to such a change, the Navy should be actively involved in drafting the DOD club regulations. Hopefully, the DOD club regulations will be minimal in size and complexity and will guide rather than frustrate club managers.

Recommendation Number 9:

All new club construction and major club renovation projects should be funneled through NMPC-Code 65 for approval. This requirement should apply to both appropriated and non-appropriated funded projects. NMPC-Code 65 should determine whether the club project in question is really needed; if an adequate patron base is available to support the addition; whether nearby DOD clubs could provide the same service; the adequacy of the physical club layout; and the membership structure of the proposed club (e.g., rank-segregated or consolidated).

Recommendation Number 10:

Finally, at all club management echelons, a greater effort should be made to educate Navy personnel about club operations. Much has been said (pro and con) about local commanders' ability/inability to manage the clubs. If a local commander has acquired a good background in club management, it is not because that individual had been exposed to any formal Navy instruction in this area. For example, the Financial Management Guidebook for Commanding Officers [105] does not include any mention of club management procedures.

While NMPC-Code 65 officials have recently begun to address participants at Washington based seminars for prospective commanding officers of Naval shore stations [106], efforts of this type have been minimal to date. Young officers and enlisted personnel have not been indoctrinated at boot camp and officers' candidate schools on club operations. They get their information, and a great deal of misinformation, about the clubs through the "grapevine." It is not surprising that "myths" about the clubs abound.

Many personnel believe that clubs are a form of "compensation" for being in the military [107]. This may have been true twenty years ago but is it the case today? Others feel that the club should offer cheap prices, excellent services, and convenient hours of operation [108]. Beleaguered club managers often find it hard to meet these high patron expectations, and still break even financially. Unquestionably in

the future club patrons are, through one device or another, going to pay higher costs for club services than in the past. It is important that they understand why and where these costs are being incurred. Navy clubs have a good product to sell and larged untapped client populations. To date, a marketing approach has not been universally promoted within the club system. It should be pushed far more aggressively in the future.

D. SOME FINAL THOUGHTS ON MILITARY CLUBS

In the introductory chapter of this report some rather lofty DOD club objectives were set forth. Who, if anyone, could take issue with these goals? Looking further, however, one discovers the bitter truth that lofty goals or not, someone has to pay for the military clubs.

Through the years consensus has varied at the Congressional level as to who that someone should be. In the last decade the trend has been to reduce the clubs' dependence on appropriated funds and package beverage profits. In essence, the current theory is that club patrons should pay the full cost for club services [109]. The era of "cheap" club food and drink prices appears to be coming to an end. How, then, will the club system ensure its survival? Are military clubs really needed any longer? After having done considerable research in the club management area, the author has concluded that the answer to these two questions is dependent on the

on the amount of club usage that clubs are able to generate among active duty military personnel. If the clubs can increase the number and frequency of active duty personnel involved in club activities, then military clubs can better fulfill their stated objectives. On the other hand, as club utilization declines, so does the clubs' overall contribution to the morale of military personnel.

This study has looked at the beginnings, the growing years, and recent declines in the fortunes of the military club system. Optimism that present day club problems can be turned around leads to hope that the end of military clubs is not in sight. After all, Armies, Navies and now Air Forces and Marine Corps still do not supply all the needs of their people. In conducting this research, the author noted that there are many dedicated government and private sector officials who are committed to improving military club operations. The problem is that some of their efforts are fragmented. It is very important that necessary adjustments are made to the military club system which will enable the clubs to adapt to present and future environments. To achieve this end, any and all reasonable ideas related to improving club management should be carefully explored by top level DOD and DON officials. Where necessary changes are warranted, hard decisions should be made. Tradition and command prerogatives should be factors in charting the future course of the club system, but they should not be allowed to dominate the decision process.

APPENDIX

CATEGORIES OF MORALE, WELFARE AND RECREATION ACTIVITIES AND SUPPORTING NAFls

CATEGORY	EXPLANATION OF EACH CATEGORY	TYPES OF MWR ACTIVITIES																																	
I Armed Services Exchanges	Includes the functions of providing through the Exchange systems (a) reimbursable goods and services to authorized patrons, and (b) funds to support other designated morale programs.	Headquarters Level Exchange Fund Retail store Soda fountain & snack bar Beer bar Gasoline filling station Car wash Restaurant & cafeteria Barber shop Beauty parlor Automobile garage & service station Newsstands Laundry Watch repair shop Radio & television repair shop Tailor shop, including dry cleaning & pressing Shoe repair shop Photographic studio Vending & amusement machines Grocery section (when specifically authorized) Taxicab & bus service																																	
II Other Resale & Revenue-Sharing	Includes the functions of providing, other than through Exchanges, (a) reimbursable goods and services to authorized patrons, and (b) funds to support other designated morale programs.	Civilian dining vending activities and services Academic book store Cadet restaurant Stars and Stripes Audio Club (resale) Class VI stores/alcoholic beverage package stores																																	
III Military General Welfare & Recreation	Includes the functions of providing welfare and recreation programs for military personnel. Category III A Nonappropriated Fund Instrumentalities provide nonappropriated fund support to those MWR activities in category III B. Category III B activities are generally administered by special services or recreation directors officers. These activities are divided into three groupings for funding support as indicated in enclosure 4. Category III B activities will not be established, organized, or operated as Nonappropriated Fund Instrumentalities.	<p>III A Headquarters Level MCM & R Fund Major Command Level MCM & R Fund Installation Level MCM & R Fund Company/Unit Level MCM & R Fund Inmate Confinement Welfare Fund</p> <p>III B</p> <table border="1"> <thead> <tr> <th>GROUP 1</th> <th>GROUP 2</th> <th>GROUP 3</th> </tr> </thead> <tbody> <tr> <td>Libraries</td> <td>Arts & crafts (including automotive)</td> <td>Bowling (more than 6 lanes)</td> </tr> <tr> <td>Sports/Athletic, self-directed & unit level/intramural</td> <td>Entertainment (including music & theatre)</td> <td>Motion pictures (paid admission)</td> </tr> <tr> <td>Recreation centers/rooms</td> <td>Outdoor recreation</td> <td>Bingo</td> </tr> <tr> <td>Shipboard & isolated/deployed unit motion pictures (free admission)</td> <td>Swimming pools</td> <td>Golf</td> </tr> <tr> <td>Armed Forces professional entertainment overseas</td> <td>Youth activities</td> <td>Skating rinks</td> </tr> <tr> <td>Unit level programs activities</td> <td>Sports-competitive (above intramural)</td> <td>Pro shops*</td> </tr> <tr> <td></td> <td>Child care centers</td> <td>Snack bars operated by recreation programs*</td> </tr> <tr> <td></td> <td>Stables</td> <td>Skeet trap ranges</td> </tr> <tr> <td></td> <td>Marinas/boating</td> <td>Armed Forces recreation centers</td> </tr> <tr> <td></td> <td>Bowling (6 lanes or less)</td> <td>Cabin cottages</td> </tr> </tbody> </table>	GROUP 1	GROUP 2	GROUP 3	Libraries	Arts & crafts (including automotive)	Bowling (more than 6 lanes)	Sports/Athletic, self-directed & unit level/intramural	Entertainment (including music & theatre)	Motion pictures (paid admission)	Recreation centers/rooms	Outdoor recreation	Bingo	Shipboard & isolated/deployed unit motion pictures (free admission)	Swimming pools	Golf	Armed Forces professional entertainment overseas	Youth activities	Skating rinks	Unit level programs activities	Sports-competitive (above intramural)	Pro shops*		Child care centers	Snack bars operated by recreation programs*		Stables	Skeet trap ranges		Marinas/boating	Armed Forces recreation centers		Bowling (6 lanes or less)	Cabin cottages
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* When not operated as an integral part of another activity

SOURCE: DOD INSTRUCTION 1330.2

CATEGORIES OF MORALE, WELFARE AND RECREATION ACTIVITIES AND SUPPORTING NAFLs

CATEGORY	EXPLANATION OF EACH CATEGORY	TYPES OF PWR ACTIVITIES
IV Civilian Employee General Welfare & Recreation	Includes the functions of providing welfare and recreation programs for civilian personnel.	Headquarters Civilian Employee General Welfare & Recreation Fund Major Command Civilian Employee General Welfare & Recreation Fund Installation Civilian Employee General Welfare and Recreation Fund Civilian welfare/recreation activities
V Open Messes	Includes the function of providing messing, and essential feeding where required, as well as social programs, services and facilities to membership groups.	Headquarters Level Military Open Mess Fund Major Command Level Military Open Mess Fund Installation Club Management Office Commissioned Officers Mess Open Senior Staff MCO/CFO Mess Open NCO/PO Mess Open Enlisted Mess Open Consolidated Mess Open * Existing and under construction only. Future swimming pools and tennis courts will be in category III.
VI Other Membership Associations	Includes the function of providing morale programs, services, and facilities (other than open messes) to special interest groups. These NAFLs neither receive revenue from nor dis-tribute dividends to other NAFLs. Merchandise is sold only to members and is directly related to the purpose and function of the membership association.	Headquarters Membership Association Fund Major Command Membership Association Fund Aero (flying) Amateur radio Boating/sailing Community TV Motorcycle Parachute/sky diving Scuba diving Other membership associations may be authorized by the DoD Components provided that facilities and activities do not duplicate those in category III B.
VII Common Support Service Non-appropriated Fund Instrumentalities	Includes all Nonappropriated Fund Instrumentalities performing consolidated support services functions such as accounting, procurement, or personnel services for more than one category of NAFLs. Does not include staff management functions at installation, major command, or Service headquarters levels, the costs of which are allocated to the benefiting categories.	Headquarters Level Common Support Services Fund Major Command Level Common Support Services Fund Installation Common Support Services Fund

SOURCE: DOD INSTRUCTION 1330.2

CATEGORIES OF MORALE, WELFARE AND RECREATION ACTIVITIES AND SUPPORTING NAFls

CATEGORY	EXPLANATION OF EACH CATEGORY	TYPES OF MWR ACTIVITIES
VIII Supplemental Mission Services Non-appropriated Fund Instrumentalities (Referred to in DoD Instruction 7000.12 (reference (k)) as "Activity Management")	Includes all Nonappropriated Fund Instrumentalities providing MWR services as adjuncts to training, health, billeting, or other mission support programs. (NOTE: Costs of mission support programs and personnel assigned to these programs will be reported IAW DoD Instruction 7000.12 only to the extent that they relate directly to the Non-appropriated Fund Instrumentality or its functions. For example, costs of operating billets will not normally be charged to category VIII. Billeting fund activities are limited to those that supplement the appropriated fund program supporting the billeting mission, e.g., provision of room maid service.)	Headquarters Level Supplemental Mission Fund Academy Dining Hall Supplemental Mission Fund Billeting/Housing (includes temporary lodging facilities & guest houses) Supplemental Mission Fund Theyer Hotel Supplemental Mission Fund Cadet Awards Supplemental Mission Fund Chaplain Religious Fund Dependent School Supplemental Mission Fund In-Flight Services Supplemental Mission Fund Military Museum/Historical Supplemental Mission Fund Vehicle Registration Supplemental Mission Fund Animal Care Fund Voluntary Contribution Supplemental Mission Fund Academic Support Supplemental Mission Fund Commandant's School Supplemental Mission Fund Special Learning Center Supplemental Mission Fund West Point Tailor Shop Supplemental Mission Fund Athletic Association Supplemental Mission Fund United States Disciplinary Barracks Supplemental Mission Fund Cadet Publications Supplemental Mission Fund

NOTE: This list of MWR activities is not intended to be all inclusive. DoD Components may approve additional MWR activities in appropriate categories as required. Management of MWR activities will be consistent with their categorization. Open messes (cat. V) may manage alcoholic beverages package stores (cat. II) and Exchanges (cat. I) may manage paid-admission motion pictures (cat. III B3), provided that separate income and expense records are maintained. Heads of DoD Components may authorize similar management arrangements, for efficiency or economy, provided that resources are allocated and financial operations are reported in accordance with DoD categorization.

SOURCE: DOD INSTRUCTION 1330.2

LIST OF REFERENCES

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2. As noted in various GAO reports and written reports of Congressional hearings. These reports and hearings are documented elsewhere in this report.
3. Noone, Francis M., Legal Problems of Nonappropriated Funds, J.D. thesis, The George Washington University School of Law, Washington, D.C., June 1965, p. 2.
4. Appropriated Fund Support for Nonappropriated Fund and Related Activities in the Department of Defense, U.S. General Accounting Office, Washington, D.C., 1977, Report #FPCD-58, p. 4.
5. Noone, op. cit., p. 6.
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10. Noone, op. cit., p. 14.
11. Changes Needed in Operating Military Clubs and Alcohol Package Stores, Volume I, U.S. General Accounting Office, Washington, 1979, Report #FPCD-79-9, p. 14.
12. Ibid., p. 82.
13. For example, the Navy Exchanges and commissaries have been placed under the central management of the Navy Resale and Services Support Office, Brooklyn, N.Y. (NAVRESSO). NAVRESSO is headed by a flag-level Navy Supply Corps officer. The role of local commanders in exchange and commissary operations is limited to an advisory role.
14. U.S. Congress, House Committee on Armed Services. Hearings before the Nonappropriated Fund Panel of the Investigations Subcommittee of the Committee on Armed Services, 1980. (House document #96-27), p. 450.

15. Ibid., p. 446.
16. Ibid., p. 227.
17. Ibid., p. 315.
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21. Personnel Policy Manual for Nonappropriated Fund Instrumentalities, Department of Defense Instruction 1401.1, May 1978, Office of the Assistant Secretary of Defense, Manpower, Reserve Affairs and Logistics, p. XIV.
22. The Legal Status of Nonappropriated Fund Instrumentalities and Their Employees, DOD Management Study Group, Office of the Assistant Secretary of Defense, Manpower and Reserve Affairs, Washington, D.C., 1975, Appendix A. The study contains a large number of examples of legal cases involving suits against the Government. These cases date as far back as 1835. The doctrine of service regulations having the effect of law is an oft repeated position taken by judges ruling on these cases.
23. Ibid., p. 19.
24. Ibid., p. ES-III-13.
25. Ibid., P. ES-III-11.
26. Ibid., P. 13-19.
27. Noone, op. cit., p. 45.
28. GAO-1977, op. cit., p. 6.
29. Ibid., p. 5.
30. Ibid., p. 5.
31. Ibid., p. 5.
32. Ibid., p. 5.
33. The Navy Exchange System and commissaries were established in 1923 as the successors to the ship's stores ashore, and the ship's service stores.

34. Potter, H. Maxwell, One Aspect of Military Manpower Costs: Congressional Oversight of Nonappropriated Fund Activities, Library of Congress, Congressional Research Service, Washington, D.C., March 1977, p. 7.
35. Ibid., p. 10.
36. Ibid., p. 11.
37. Ibid., p. 25.
38. Ibid., p. 12-18.
39. For example, Representative Bill Nichols (Dem-Alabama) who chaired the 1972 NAF panel was also a member of the 1977 and 1979 panels. Representative Dan Daniel and three other members also were present for both the 1977 and 1979 club hearings. Mr. Ralph Marshall and Mr. Will Cofer, NAF panel professional staff members, have also participated in at least two club panel hearings.
40. U.S. Congress, House Committee on Armed Services. Hearings before the Nonappropriated Fund Panel of the Investigations Subcommittee of the Committee on Armed Services, 1972. (House document #92-69), p. 15156.
41. Potter, op. cit., p. 20.
42. U.S. Congress, House Committee on Armed Services. Hearings before the Nonappropriated Fund Panel of the Investigations Subcommittee of the Committee on Armed Services, 1972. (House document #95-53), p. 118.
43. Naval Audit Service, Capital Region, Falls Church, VA, Report #C37148-Bupers Morale, Welfare, and Recreation Management, February 1979, p. 5, 29.
44. Interviews with DOD and DON club officials, club managers, and IMCEA officials indicated that the GAO reports were focal points in any discussion of military club matters.
45. Using social security numbers, a random sample of 4708 questionnaires was sent out. 3210 Replies were returned sufficiently filled in to allow analysis. The military population was divided into 12 strata based on rank and service affiliation. A 95 percent confidence level was stipulated and various sampling errors were obtained for specific sub-groupings. For example, service level findings among officers yielded a sampling error of ± 7 percent for a 95 percent confidence level.

46. As noted in the written statement of Rear Admiral Fran McKee, Assistant Deputy Chief of Naval Personnel, presented to the NAF panel during hearings conducted on 17 October 1979. The contractor (Case & Co. of Stamford, Conn.) report was uncompleted as of the time of this writing.
47. The IMCEA is a professional association of military club managers that was founded in 1972. Currently the IMCEA has approximately 500 members. IMCEA sponsors conferences and seminars on club management, maintains a listing of military club manager job vacancies, publishes an annual directory of members, and runs a club certification program.
48. As of this writing, only 21 Navy officer clubs charged dues.
49. GAO-1979, vol. I, op. cit., p. 22.
50. U.S. Congress, House Committee on Armed Services. Report of the Nonappropriated Fund Panel of the Investigations Subcommittee of the Committee on Armed Services, 1980. p. 10-11.
51. Ibid., p. 2.
52. Ibid., p. 2.
53. Ibid., p. 2.
54. Ibid., p. 3.
55. Ibid., p. 2.
56. U.S. Congress, House Committee on Armed Services. Hearings before the Nonappropriated Fund Panel of the Investigations Subcommittee of the Committee on Armed Services, 1979. (House document #96-27), p. 505-6.
57. Ibid., p. 497.
58. Ibid., p. 505-6.
59. Ibid., p. 369.
60. Ibid., p. 513-5.
61. U.S. Congress, House Committee on Armed Services. Report of the Nonappropriated Fund Panel of the Investigations Subcommittee of the Committee on Armed Services, 1980, p. 14.

62. U.S. Congress, House Committee on Armed Services. Hearings before the Nonappropriated Fund Panel of the Investigations Subcommittee of the Committee on Armed Services, 1979. (House document #96-27), p. 380.
63. Ibid., p. 392.
64. Ibid., p. 507-12.
65. Ibid., p. 516-17.
66. The 24 percent figure quoted was arrived at by counting the number of Navy managers listed in the 1979 IMCEA membership directory and dividing the number obtained by the number of Navy clubs and package stores managed by civilians ($98/408 = 24\%$).
67. U.S. Congress, House Committee on Armed Services. Hearings before the Nonappropriated Fund Panel of the Investigations Subcommittee of the Committee on Armed Services, 1979. (House document #96-27), p. 329, 496.
68. Cash and Investment Management of DOD Nonappropriated Funds Needs to be Improved, U.S. General Accounting Office, Washington, D.C., 1978. Report #FPCD-78-15, p. 18.
69. U.S. Congress, House Committee on Armed Services. Hearings before the Nonappropriated Fund Panel of the Investigations Subcommittee of the Committee on Armed Services, 1979. (House document #96-27), p. 320-21.
70. Figures quoted were computed from the consolidated package store profit listing dated 2 March 1979, prepared by the Navy Mess Central Accounting Unit.
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72. Perry Robert C., "Navy Recreation: An Overview," The Navy Supply Corps Newsletter, November 1978, p. 16.
73. Ibid., p. 16.
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75. Interview with Mr. James Johnson, manager of the NAS-Moffett Field Officers' Club, 5 February 1980.
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78. GAO-1979, Vol. I, op. cit., p. 4.
79. U.S. Congress, House Committee on Armed Services. Hearings before the Nonappropriated Fund Panel of the Investigations Subcommittee of the Committee on Armed Services, 1979. (House document #96-27), p. 372.
80. Ibid., p. 396.
81. Ibid., p. 396.
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